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PRESENT U.S. TRADE CHALLENGES

HEARING

BEFORE THE

SUBCOMMITTEE ON MONETARY AND FISCAL POLICY

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

NINETY-NINTH CONGRESS

SECOND SESSION

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MONDAY, AUGUST 18, 1986

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MONDAY, AUGUST 18, 1986

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON MONETARY AND FISCAL POLICY
OF THE JOINT ECONOMIC COMMITTEE,
Washington, DC.

The subcommittee met, pursuant to notice, at 9 a.m., in the Gold Room, Idaho State Capitol, Boise, ID, Hon. Steven D. Symms (chairman of the subcommittee) presiding.

Present: Senator Symms and Representative Craig.

Also present: John Starrels, professional staff member.

OPENING STATEMENT OF SENATOR SYMMS, CHAIRMAN

Senator SYMMS. Good morning. Well, I would like to welcome all of you here this morning. It's a pleasure to have all of these good witnesses here. Some have come from quite a distance to join us in this hearing of the Monetary and Fiscal Policy Subcommittee of the Joint Economic Committee.

We have called this hearing today because many of Idaho's economic problems are related to trade policies of our international trading partners. Our task is to assess the opportunities that Idaho's businesses and industries have within present law and policy and the need, if any, for changes in those laws and policies.

Now, I hope this will be a very productive session. The most important segments of Idaho's economy are well represented here on the witness list this morning. Those offering testimony are leaders in their respective fields who know current trade issues well. They understand what is real and practical, and their input will be valuable as we search for the magic key to free, fair trade—I emphasize fair.

This is the problem we face. We live in a global society with a global economy. World trade is a fact of life, and we must adjust to that fact and profit from the opportunities it represents. We must know what a global economy means, what it represents and what we have to do to be a competitive part of it.

At this time we're not doing that. Our current trade deficit is running at a monthly rate of more than $14 billion. We have a monthly deficit in the food, beverage, and tobacco category of between $500 million and $1 billion.

I'm not convinced that Idaho and American agriculture and business are inefficient nor that our products cannot be competitively priced. Rather, I'm convinced that we too often face unfair trade policies and subsidies that give our trading competitors and unfair edge. I hope we can shed some light on this issue today.

We are fortunate to have one of the country's top trade experts with us today. Mr. Alfred Eckes is Commissioner of the International Trade Commission. In this position he has heavy responsibilities for investigating unfair trade practices and for considering claims of businesses which feel they have been injured by these practices. As I have said before, he's the right man in the right spot at the right time.

In May the President, acting on ITC findings, imposed tariffs on both Canadian shakes and shingles and on Japanese microchips. In June, the ITC made a preliminary finding that the U.S. softwood lumber industry had suffered injury from Canadian imports which, many believe, are heavily subsidized. I'm sure that Commissioner Eckes will set the proper tone for this hearing.

I want to make note of the fact that he's come a long way to visit our beautiful State and is accompanied by his mother. They intend to take a short trip and see some of our beautiful scenery and then drop by Yellowstone Park. We're delighted to have you here at this hearing.

To start the hearing I would like to first welcome our First Congressional District Congressman Larry Craig. Larry and I have worked together on a wide variety of trade issues, including the Canadian lumber problem. Larry was spearheading that drive 2 and 3 years ago. He mobilized support in both the House of Representatives and in the Senate to draw attention to the problem of the rising tide of Canadian lumber that's coming across the border into the markets of the United States, taking away markets that we have had.

He represents the First Congressional District, in my opinion, with distinction. It's a pleasure to have Larry as a member of the team on these issues. Larry, I assume that you have an opening statement and the mike is yours.

OPENING STATEMENT OF REPRESENTATIVE CRAIG

Representative CRAIG. Steve, thank you very much. Ladies and gentlemen, thank you for coming to what I think is a most important hearing today. Let me also echo my welcome to Commissioner Eckes.

As Steve mentioned, over 2 years ago I became involved in trade issues much more than I ever thought I would be, thanks to Steve Symms and Senator McClure. Steve has especially taken up the banner in the Senate, making some tough votes and some tough calls against the administration. Together, we were able to wake them up to a problem that is devastating our State.

Of course, I see in the room this morning a good many people of that industry who have been participants with us in the direction that this administration, the industry and the Commerce Department and the International Trade Commission are now headed in, in the overall and comprehensive investigation of the Canadian timber issue.

Idaho is not widely viewed as a State that relies on trade. If you look at any of the nationwide trade figures, Idaho tends to fall rather low in a variety of categories. When you look at the overall impact of trade in this State and agriculture alone, you see about

$1.4 billion of annual activity. This figure does not include forest products, manufactured products, nor any of the other kinds of things that Idaho's economy is involved in. When you put it all together, trade is a very important part of the Idaho economy. International trade reflects very directly in the Idaho economy.

I just recently read a Chase econometric study. It was alarming to me because, for the first time, economists in this country are beginning to target and look at the trade issue as a part of the overall economic recovery of this country. Recently, we have seen strong economic and employment growth in a variety of areas; however, we have noticed little to no economic recovery in commodity-oriented States like Idaho. In large part, this is directly due to the phenomenal trade deficit that we are running.

The Chase study predicted that unless we can spark trade and consumer spending, U.S. primary commodity markets and primary commodity producers will continue to stagnate. Therefore spurring trade and consumption is a major goal. We are striving to assure that tax packages and the activities of the Congress don't in some way damage one, the other, or those two things in concert. I don't think Idaho is going to feel the kind of economic recovery that it deserves and is expecting until we can get the trade deficit down, because of its specific and direct impact upon the economy.

I think a good example of the frustration in the Congress right now comes from the textile bill that was vetoed by the President. We were able to hold that veto in the House recently. I received a lot of pressure from my colleagues in the House because they thought it was the right thing to do. It was fundamentally the wrong thing to do.

To move into an era of protectionism is simply and fundamentally negative to this economy. But, at the same time, I think we are in a renaissance of looking at trade policy and recognizing that the term "free trade" can no longer apply in the way that we have historically applied it. There has to be some balance. There has to be some fairness. We have to look at our trading partners on a one-on-one basis. Collectively, through such agreements as the General Agreement on Tariffs and Trade, we have to be tough.

This administration, in the last 12 months under the direction and the guidance of our new Trade Ambassador, Mr. Yeutter, has began to move very aggressively in dealing in a tough and strong way. We have in large part allowed our doors to remain open and that has cost us in this economy a tremendous amount of money and jobs and businesses that we're all well aware of.

Steve, let me thank you personally for the role you've taken in these trade issues and the tough stands you have made when they were necessary. Let me thank you for being allowed to participate in the hearing this morning. It is critical that Idaho be heard in Washington, and its issues and its concerns be heard in Washington, and I know Steve will do an excellent job in the Senate of carrying that message; the message that will come out of this hearing this morning.

Senator SYMMS. Thank you very much, Larry. We're ready to get started with the witnesses. Commissioner Eckes, if you would come up, you may go ahead and proceed.

STATEMENT OF HON. ALFRED E. ECKES, COMMISSIONER, U.S. INTERNATIONAL TRADE COMMISSION

Mr. ECKES. Thank you very much, Mr. Chairman. Good morning. And good morning, Congressman Craig. It's a great pleasure to testify before you again on the trade problems facing our nation and the current efforts to deal more effectively with those problems. The massive national merchandise trade imbalance, as we know, reflects deficits posted by many different industries and affects members of those industries in each of our 50 States. This opportunity for me to come to Idaho is a very appropriate opportunity to focus my statement on the concerns about trade and its impact, not from the macro level of national trade statistics, but rather on the micro level of the lumber mill operator, the miner, the farmer or the semiconductor worker in this State.

But first, I think I should offer a reminder of the magnitude of the national trade problem. Statistics for the first half of 1986 show that merchandise imports exceeded exports by over $80 billion during this period. A 27-percent increase over the deficit for the same period of 1985. As you both know, the current estimates place the merchandise trade deficit for this year at almost $170 billion.

One disturbing fact shown by the latest trade statistics is that our exports continue to decline. They did so in the first 6 months of 1986 as a whole. Our agricultural surplus declined 82 percent over the same period of 1985. And chemicals, where we have traditionally demonstrated a substantial surplus is also showing a shrinking surplus, down 7 percent in that period.

The decrease in exports, despite our weaker dollar, appears to stem from two main causes: slack demand in many of our foreign markets, and increased supply from new sources—from new national competitors. Competition is growing rapidly in many trade areas as the developing nations learn to supply their own needs and compete with U.S. producers in the U.S. market. These countries, in many cases, are compelled to export to service their development debts.

Imports continued to increase in the first half of 1986, particularly in machinery and equipment: capital equipment, textiles and petroleum. According to economists, the stronger dollar should have made our imports more expensive and thus increase the volume. However, foreign producers in many cases are absorbing currency-valuation price increases, preferring to reduce their profit margins rather than yield market share. Also, new entrants are adding to the import flow. Korea exported 20,000 automobiles to the United States in the first quarter of 1986 compared to only 2 in the first quarter of 1985. And apparel imports were shipped from many new small suppliers such as Nepal, Mauritius, and Turkey.

As a Commissioner of the U.S. International Trade Commission, I'm primarily concerned with the import side of the trade equation. Under the trade statutes, I must rule on whether massive imports or unfair imports are injuring domestic industry. As you noted in your opening statement, some of these investigations have affected or will affect industries in Idaho. The lumber industry has figured prominently in our investigations, and as you know the Commerce Department now must make a preliminary decision on the subsidy issue by October 14. If it is affirmative, the final phase of this complex phase of this investigation will begin for the ITC.

In the case of another important industry in Idaho, the semiconductor industry, antidumping investigations recently were initiated against imports from Japan by private industry and the Commerce Department. And as a result of the complaint filed by Micron on the 64K DRAM's, antidumping duties of 12 to 35 percent were imposed on this classification of Japanese semiconductors.

These examples suggest how using the statutes may well assist U.S. industries to fight off unfair imports. But this approach, even with substantial changes in the trade laws, will not, in my judgment, eliminate the trade deficit any more than currency adjustment has accomplished that objective up to now.

For all producers of goods and services, it is a very competitive world today. The United States still has a slight edge in high technology, but unless we're willing to invest in our human and industrial capital that edge will disappear as quickly as our agricultural advantage has vanished.

I believe we must encourage, through rewards in the marketplace, the eduction of more engineers and skilled technicians and perhaps fewer lawyers and investment bankers. Industrial profits must be channeled into process and product improvements and fewer into mergers and acquisitions.

And finally we must learn to be salesmen in a global market, identifying needs in countries with cultures vastly different from our own, and tailoring products and services to address those needs.

As you know, the United States is now the largest debtor nation in the world, with an investment deficit of over $107 billion at the end of 1985. Some economists are even predicting that our foreign debt will exceed $1 trillion by the early 1990's. Traditionally, a debtor nation must generate an export surplus to service its international obligations. Restricting unfair imports to help our beleaguered industries generate profits in the domestic market and obtaining access to foreign markets are but two steps toward the goal of generating an export surplus that can be assisted by government action. The giant step, it seems to me, must be taken by U.S. industry and workers in producing the high-quality goods that will outsell those of our many competitors in the increasingly competitive world marketplace of the 1990's.

Mr. Chairman, that concludes my remarks. I would be happy, at this time, to respond to any questions that you and Congressman Craig might have.

Senator Symms. Thank you for an excellent statement. I note that you have made the comment that:

> Large corporations with platoons of lawyers are well aware of the appropriate actions under our trade laws to obtain relief from unfair imports. However, to small firms, sections 201, 701, 731, and 337 can be impenetrable maze. Obtaining legal counsel to chart the best course may seem prohibitively expensive. Congress recognized this problem when revising the trade laws in 1984, and instructed the ITC to establish a Trade Remedy Assistance Center.

How is that Center working out, in your opinion?

Mr. Eckes. Since the 1984 act established the Center, Senator, we have established this Trade Remedy Assistance Center to assist small businesses, in particular, to provide them with access to information about the variety of statutes that they can file complaints under. It's obviously not a facility designed to advocate various positions, but we will help them gather information and to write a petition that will satisfy the preliminary aspects of the law.

We have had a vast number of inquiries, and I think that for industries that can qualify as small business under the small business definition, this Center would be a great assistance in dealing with import complaints. I certainly would invite any Idaho businesses that are small and are having import problems to contact us. We will do everything we can to help them figure out what are the appropriate statutes and to prepare complaints.

Senator SYMMS. In other words, you feel it is working successfully?

Mr. ECKES. It seems to be working successfully. We haven't had that much experience with it. We have had a large number of inquiries. There are, of course, those who believe that we should go beyond the initial mandate, which is to actually argue cases on behalf of small businesses. That has not been my position because I did not think it was the intent of the Senate Finance Committee when the provision was written. But it may be in the future that the pressure will grow for that cause.

Senator SYMMS. Now, with the trade legislation pending before the Congress, what recommendations would you make to me, as a member of the Senate Finance Committee, of things that should be included to facilitate our ability to enforce fair trade.

Mr. ECKES. It seems to me that several of the statutes that we administer have certain ambiguities, and it would be very helpful if we could either have clarifying language in the law or in the legislative history that would help the Commission apply the law.

For example, with respect to agricultural issues, the House bill contains this provision, but it seems to me that from the standpoint of domestic agriculture it's potentially a valuable one. Some sort of amendment to 19 U.S.C. 1677 that would amend the definitions of industry and interested parties in the title VII antidumping and countervailing duties investigation would be helpful from a standpoint if agricultural producers would then qualify, whether or not they were actually producers of the like product.

This has been a problem for hog farmers; it's been a problem for grapegrowers in the past. It might help avoid a different treatment for different agricultural products. Second, there is a provision dealing with cumulation. It's rather complicated, but basically the notion of cumulation is that the Commission would assess imports from a variety of countries as if the imports came from a single country. This was placed in the 1984 act.

One of the problems, however, is that the act is unclear on whether that applies to cumulation between antidumping and countervailing duty laws or only in cases involving countervailing duty laws and in cases involving antidumping laws. Some sort of clarification about cumulating across statutes would be particularly valuable to the Commission. And I believe some clarification about whether we are to cumulate cases involving threat of injury to domestic industries.

There are a couple of areas which are even close to my heart and haven't been addressed in the law. Perhaps these would best be addressed by some changes in the legislative history or clarifications. That may require minor changes in the law itself. For example, some of my colleagues and, indeed, myself are unclear at times about whether or not the law was designed to address only predatory dumping, involving intent by foreign producers or whether the dumping statutes, as I actually think, involve all types of dumping, whether it was predatory or not. But some clarification in the legislative history would be valuable there.

Finally, I might say that some of the Commissioners are very much interested in economic analysis and there is a tendency, perhaps, to look for proxies for certain statements in the law and it might be helpful—and we can provide more specific information on that to you and your staff later on—to have some clarification in the legislative history about the use of substitute criteria, where the law appears somewhat ambiguous on its face.

Senator SYMMS. Those are very good recommendations. As I look at the picture in the Congress, I scratch my head and wonder how the Senate will ever actually move forward with trade legislation in the 99th Congress. We spent, for example, last week in session until past midnight every night with almost a record number of votes on two issues that have nothing to do with the domestic economy: One, Contra aid, and the other one, sanctions imposed on South Africa.

And I know that's not the wish of the majority leader, to spend all that time on it. But the way the Senate operates, the minority can force those kinds of issues. And as long as we're preoccupied with issues offshore, we will have a difficult time ever moving on to trade legislation. What you're saying is we need to try to revise our trade legislation to fit the current set of circumstances.

Mr. ECKES. We need to update our trade legislation.

Senator SYMMS. If I could pursue one further question. I know Congressman Craig has some questions, but what, in your view, should be the lead negotiation goal of the United States in the forthcoming multilateral trade round?

Mr. ECKES. Well, I really haven't thought that much about that one, Senator, since I'm not in charge of negotiations, but we're currently working very much on the Canadian-United States free trade pact. One of the problems that you're well aware of, I know, is that the agricultural subsidies that you see especially from Europe, and now increasingly from other suppliers as well, some effort to gain progress in the GATT to establish certain criteria regulating agricultural subsidies would be very important, I think, to our general progress in trade. Second, it would be helpful if we can move forward to extend the basic GATT framework.

Senator SYMMS. Just as a curiosity, and this may be an area you don't keep track of, but what about the subject of agricultural imports? We're very frustrated here in Idaho, an agricultural State, to find out we actually had a net negative trade balance on agriculture in the month of May, I think, it was. How much of that imported agricultural product is coffee?

Mr. ECKES. I don't know offhand.

Senator SYMMS. Isn't coffee one of the largest dollar imports next to oil? Isn't it about the largest thing we import?

Mr. ECKES. Coffee, traditionally, was a major agricultural import for us. One of the problems now is we're using our comparative advantage in certain commodity products like soybeans and wheat where perhaps we have already lost it. Those are the areas that many of the less-developed countries are now entering. Particularly the Brazilians competing with us in Third World markets, the Chinese, for example. I will provide you with some statistics on the growth in agricultural products item by item.

Senator SYMMS. Thank you very much for your statement. I thank you very much for coming out here to be with us, and I appreciate your concern. I just want to say again on the Trade Remedy Assistance Center that I'm going to ask some of our companies how they have been able to utilize it on handling their trade complaints. I know that in a conversation with Mr. Simplot, he felt that when they found the right person at the Commerce Department, that filing their case became rather simple. Until they got to the right person, though, he said it was kind of complicated. And the way you've described it is exactly the way I hear about it from people out here. Their problem is that it is just such a myriad of regulations.

Mr. ECKES. The problem is he probably wouldn't qualify as a small business. It may be that our medium-sized firms are the ones that really need the help.

Senator SYMMS. Let's use Micron Technology as an example: Whether you call that a small business or not, they don't have a massive army of attorneys. They're basically engineers and designers. They felt very good about the Center. So, something there is helping and is working.

Mr. ECKES. I might say—and this is a compliment to Micron, but it's well deserved—they're one of the firms that has come before us in recent years and chosen to argue their own case. They did so quite well. It's quite possible, as their example shows, for an inhouse attorney to master our trade laws and to successfully wage a complaint.

Senator SYMMS. I think it's important that we do this, because the price of hiring one of the high-powered lobbying firms in Washington, DC, is high. They don't even want to talk to somebody about a case like this for much less than $500,000. It becomes mind boggling to a company out here because that kind of money is just not available to them if they wish to obtain high-priced representation in Washington. So I think this is really important and in the filing of the cases—it's most important.

Congressman Craig.

Representative CRAIG. Thank you very much. I have a chart here that I have been looking at during your statement which I think speaks to the concern and certainly to the Trade Remedy Assistance Center concept. It's still very frustrating to me. You have an industry that begins to recognize being substantially injured by foreign competition. And by the time that's recognized and the injury is felt on the financial statement of that industry large or small, they have already sustained enough damage that they may become considerably more fragile than they otherwise would be.

Then they enter into the process—and, Steve, you would be interested in this—I had staff dig this up. Here's the process—this happens to be the timetable for the forest products industry. May 1986, filing of petition. And this game plan that spins out clear out over here, U.S. ITC final decision marked 8-87, we've looked at a full year. And probably this process will cost the industry about $2 billion.

Mr. ECKES. It doesn't take that long, Congressman.

Representative CRAIG. This is the normal statutorial timeline, is it not?

Mr. ECKES. That's correct. But let me insert something else. If the Department of Commerce finds injury in the preliminary phase and their preliminary in the lumber case comes the week of October 9 or 14—I have heard two different dates—then bonding and liquidation suspended, you would, in effect, have temporary duties imposed at that point. It would not take a full year for duties to be imposed.

Representative CRAIG. So you could anticipate temporary duties while the rest of the investigation and the process played itself out?

Mr. ECKES. That's right.

Representative CRAIG. That's been the frustration of some. They're already so injured at the time they decide to finally take action, that if they have to continue on through another year of the illness, it may well do them in in the process. And the process is lengthy and expensive.

Mr. ECKES. It seems to me the point you're making is particularly well taken with respect to high technology where products change rapidly and it's possible to launch an assault on the domestic market. It's here that perhaps our trade laws don't respond quickly enough.

Representative CRAIG. That's the point that I was coming to and you've anticipated it. Where, besides some statutorial adjustment, would you recommend we might speed up the timeframe for these very time sensitive types of products that are in the market for a year and then are obsolete and a new design comes along?

Mr. ECKES. I think this has to be discussed in the next GATT round. While it's possible, obviously, to impose duties from the moment a petition is filed, this, nonetheless, would probably be incompatible with our international agreements. Thus, I suspect there are going to have to be some negotiations on that if we alter the timetable much.

My overall impression would be that the international agreements perhaps need to be modified to keep pace with the changing technology and situations such as you have mentioned.

Representative CRAIG. In the work that you're doing on the concept of a free-trade environment or free-trade zone—hemispherical zone—between the United States and Canada, the name free trade has caused some to react negatively. Let me see if I understand it from your perspective. What we're looking at is the creation of an environment for bilateral communications and negotiations, are we not?

Mr. ECKES. Yes.

Representative CRAIG. More so than a multilateral or having to deal in the context of the GATT, shall we say, versus the hemispherical relationship?

Mr. ECKES. In the last several years that has been a new thrust to our trade policies. We had it first with United States-Israeli free trade. We had it with some of the Caribbean Basin nations. Now, it seems to be north-south with Canada. Where that goes, one doesn't know. It may have the effect over the long term of achieving multilateral goals through bilateral negotiations. It's also possible it may prove to contradict our overall long-term goal of multilateral tariff reductions.

Representative CRAIG. Are your saying to me then that in our relationship with Canada, we would be able to deal with them on a commodity-by-commodity, product-by-product basis? If it's beef, we deal with beef and we develop our own relationship with Canada as it relates to that—potatoes, timber? And that we inside the zone, if you will, can do that and not be in violation of the GATT?

Mr. ECKES. I believe we're looking at the probable effects of free-trade negotiations at the moment. We will be holding 5 or 6 days of hearings on this in the month of September. So I don't have all of the information before me. But we're certainly interested in finding out how U.S. industry receives the effects of these tariff removals with Canada and efforts to control visible barriers as well.

Representative CRAIG. It does not mean, does it, that if this is to be established that all barriers simply fall away? That the border for purposes of trade is no longer existent? That there are still agreements and monitoring of movement of product on a commodity-by-commodity, product-by-product basis?

Mr. ECKES. Literally free trade would provide for the removal of all trade barriers. It's not clear to me and I'm not the negotiator on how far that's to go. One item that the Canadians are most concerned about is the presence of our unfair trade laws. They would like an exemption from our countervailing and antidumping duties. And I suspect that Congress and the administration are going to be reluctant to provide that concession to the Canadians. There is going to have to be a meeting of the minds if there's going to be free trade, and that issue is going to be a major one to be resolved.

Representative CRAIG. Thank you very much.

Senator SYMMS. Thank you very much, Mr. Commissioner. We again hope you have a nice stay in our State and see some beautiful scenery. If you're going to drive to Yellowstone Park, I would recommend you go through Stanley Basin on the way and on up to Idaho City, that way.

Mr. ECKES. Thank you.

Senator SYMMS. Our first panel this morning is C.L. (Butch) Otter, from the J.R. Simplot Co.; Todd Maddock, from Potlatch Corporation; Robert Hitchcock from Evergreen Forest Products; Tom Richards, Idaho Forest Industries; and Don Jensen with Associated Logging Contractors. We will just start out the way it is on the schedule. That puts you up first, Butch.

STATEMENT OF C.L. (BUTCH) OTTER, J.R. SIMPLOT CO.

Mr. OTTER. Senator, I appreciate the opportunity to come before you. I have a few comments that I would like to make, relative to our personal experiences in the international market and the problems we have had, not only with regard to our exporting foods into foreign host countries, but also in imports that come into the United States that we have trouble, obviously fcr one reason or another, competing with.

The basic business of the J.R. Simplot Co. is in agribusiness. We're processors of over 1 billion pounds of potatoes—french fries—processed potato products, as well as about 250 million pounds of vegetable products. Also we're in the beef production business. We use the offal from our vegetable plants in order to use as feedstock for the production of beef.

The second large division in our company is the production of commercial phosphate fertilizer. Although we're not really in a world position of exporting much out of that fertilizer division, it still has a large impact on us when we have to fight imports from countries that either do not have to operate under the same restrictions that we might have to in the United States or are favored one way or another in the marketplace by either a subsidy or some sort of help from their government.

Senator SYMMS. We're not importing any phosphate in this country, are we?

Mr. OTTER. No. But there are other competing fertilizers——

Senator SYMMS. They're taking it away from us in the other markets. Is that what you mean?

Mr. OTTER. Yes. In other competitive commercial fertilizer markets, Senator, they're taking it away from us. It's an alternative fertilizer, I guess, is what I would want to say. Most of that was caused, I would say, by the Caribbean Basin initiative which was an effort to help the poor countries of the Caribbean Basin, and consequently they use their cheap gas and cheap labor, as well as a favored trading status with the United States, in order to bring uninhibited highly competitively produced products into the United States.

Where I would like to concentrate this morning and where we have had probably the greatest amount of experience is in the marketing of our vegetables overseas, and also some of the imports coming in, particularly from Canada, in the potato processing area. We have been very successful, I would say, in spite of some of the restraints, not only by our own government, but by the host governments, in introducing the famous Idaho potato into foreign markets. More specifically, I would say the Pacific Rim.

We faced an uphill marketing battle there for two reasons: We had tradition against us, but we also had a quality and a type of living that went against us. In other words, the kind of products that we have are finger foods. And in that area of the world it was felt unhealthy to touch your food. So subsequently most of those people eat everything with chopsticks or some other utensil for eating.

But anyway, through some good marketing efforts by the private sector, we were finally successful in getting into the biggest market over there, which was Japan, in the mid-1970's. Once we overcame the natural hurdles of marketing problems, we started facing ever-increasing problems of the host government raising duties on our products. Because being a starch-based product, the potato was competing with rice. On their rice economy they felt they had to hold the price of a competitive product like potatoes high enough so that people would find it more economically advantageous to buy rice instead of potatoes. But the Golden Arches won out. Eventually we did capture a sizable portion of the market, in spite of the fact that we were still paying, and still are today, a substantial fine, if you will, in the marketplace, on importing our products, exporting our products from Idaho into Japan.

Senator SYMMS. How much is the duty on processed products?

Mr. OTTER. Today it's 15 percent. We started out at 60 percent and that's CIF. That's cost, insurance and freight. So at the farm gate—or at the plant gate, if I have a product worth, say, 30 cents—30 cents a pound for french fries—not only am I paying a duty into Japan on the 30 cents, but also if it cost me 45 cents a pound, which is the cost to get it there, now that's a 75-cent total cost.

If it cost me $4 a thousand on the value of the freight—insurance to get it there—I would also pay that same duty fee on that 4 cents, in order to get it into the product. So it's not just 60 percent on 30 percent of the cost of the merchandise itself. But it's the cost, insurance, and freight all added up together and the duty is put on there.

As I said, it started out at 60 percent. But due mostly, I would say, to the acceptance in the marketplace and the acceptability by the people themselves; the success of some fast-food operators moving into that market. We were successful in negotiating downward the 60 percent duty which we originally started with down to about 15 percent today. It's still a prohibitive bear to us getting into that market. We could be an awful lot more competitive with some of the other foods in Japan if we didn't have to face that 15 percent duty.

Now, of course, in some of the other areas of the Pacific Rim, like Taiwan, we're still paying upwards of 50 to 60 percent. Singapore and Hong Kong, those markets are totally open. By and large wherever we find that we will be competitive with a farmer in that host country, even though it may not be with the potato it may be with rice—which is another starch-based product—or corn, we usually face a substantial duty and the result is a substantial reduction in the potential we have in those markets.

Senator SYMMS. How's the Singapore market?

Mr. OTTER. The Singapore market is open.

Senator SYMMS. Are the Golden Arches going big over there?

Mr. OTTER. I would say there's—I'm guessing now—about 20 McDonald's over there. But McDonald's was just the pioneer—Burger King, Burger Chef, Kentucky Fried Chicken, and A & W. My largest customer in Kuwait, for instance, is A & W root beer stands. All of the fast food operators are going all over the world. Which, of course, is good for us because it gives us the opportunity to move in and maintain that quality of merchandise that they want.

Senator SYMMS. But you're actually exporting—most of these potatoes are processed here, or do you grow some over there?

Mr. OTTER. In the countries I have mentioned we're only actually operators in one country in these foreign markets. That happens to be Turkey. The reason we had to go into Turkey was there was certain limitations. Not necessarily in the price, but on the production and on the processing of the potato itself. So we went into Turkey which was a like religious—had a similar religious atmosphere—and the Middle East was much more acceptable to taking our kind of products out of Turkey as opposed to taking them out of Idaho.

But the point I want to make is that we think that we could probably be doing better—although we started Simplot International in 1979 and we did that because we saw the fast-food operators going overseas on a very aggressive basis and we like to follow them around because they are our biggest customers. In 1979, we had $300,000 in sales. In 1985, we had $31 million in sales. I would like to venture a guess that we could probably have 40 times that in sales—yes, $300 million in sales if we didn't have near the economic barriers to trade that we have.

Most of these same countries that I'm talking about see fit to inflict upon our economy here in the United States and our government, being the good host that it is, accepts those—most of those products—not only duty free and not only without any kind of economic restraint or allocation as far as how much will come in, but also does not recognize the burden that they put on the U.S. producers—and in particular the Idaho producer as opposed to the foreign producer.

Most of these countries that would be competitors with us do not have an OSHA, if you will, a USDA, and a minimum wage. They don't have all the restrictions on their private sectors which inhibit them or inhibit them from producing products on an economic basis or drive the cost of production up through regulations to the point that we become noncompetitive with them.

So I would say that if there is anything, Mr. Chairman, that—the message that I would like to leave is just level the playing field out. The Idaho farmer has a capacity to outproduce any farmer in the world, as far as I'm concerned. Not only on quality but also on quantity. If given the opportunity he can do that on an economic basis. I think the Idaho processor has the state-of-the-art technology. I'm not just talking about my own country, but the other 16 processors in this State. We have a state-of-the-art technology unsurpassed by anybody else in the world. That's why the world comes knocking at Idaho's door when they want to find out how to do things better in the potato processing and also the vegetable processing arena.

So if you can just help us level the playing field and give us an opportunity to get into those countries and compete on an equal basis, using perhaps maybe at least the encouragement of their countries—these host countries—to lower their barriers, or perhaps maybe we will take a look at causing some economic dislocation for them when they try to come into this country.

I think if we can just level out the playing field, Mr. Chairman, Congressman Craig, that's all we want. We don't want any subsidies. We don't want anybody going over and negotiating our con-

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tracts for us. All we want to do is have a level playing field. I think you'll find that we can compete with the best in the world. We can do it on an economic basis. It would mean a substantial growth to our industry.

Senator SYMMS. Thank you very much for an excellent statement.

Next, we will hear from Todd Maddock from the Potlatch Corp., who does a substantial amount of business in the Pacific Rim from its Lewiston plant. And that is a significant amount of business in terms of total overall dollar value of exports out of Idaho. It further constitutes an important part of our ability to compete in international trade. I do want to ask you—and I hope you'll comment on—has the dollar change with respect to Japan had an impact on your ability to compete in that market over the past year?

STATEMENT OF TODD MADDOCK, POTLATCH CORP.

Mr. MADDOCK. Thank you, Senator Symms, Congressman Craig. I appreciate the opportunity to be here today and testify on the subject of international trade and its importance to Potlatch Corp. and the forest products industry.

As you know, Potlatch Corp. is a tree farmer and a converter of forest products. We have timberland in Arkansas, Minnesota, and Idaho. At each of these locations we manufacture solid wood building materials, as well as produce pulp-based products.

In Idaho we employ 3,500 people and manufacture lumber plywood, particleboard, bleached pulp and paperboard, and tissue. For a number of years Potlatch has energetically participated in foreign marketing. Since 1978, for example, our sales to Japan amounted to 600,000 tons of paperboard, a material used to produce milk cartons and other liquid-type containers. We currently supply over half of Japan's annual needs for that product.

But as we compete successfully in Japan, Canadian lumber producers have damaged our domestic lumber market and threatened our pulp markets as a result of subsidies provided by Provincial and Federal governments. In 1985, Canada had captured more than one-third of the U.S. softwood lumber market and imports from Canada in 1986 are already running ahead of last year. Up until 1975, Canada had historically enjoyed about a 20-percent share of the U.S. market. That share rose to 25 percent in 1977 and has climbed every year thereafter.

The United States has lost 629 sawmills during this period. Canada has added 85. The United States has lost 30,000 sawmill jobs and but three times that many in logging, transportation, and other support occupations. For example, Potlatch Corp. has permanently closed three mills in Idaho. In one instance closing down one sawmill destroyed the economies of scale and logging operations that also supplied a plywood mill. Thus a closure of a sawmill triggered layoffs that eventually came to a total of 1,250. A renegotiated labor contract allowed these plants to reopen, but since 1980 Potlatch Wood Products employment in Idaho also has fallen by about half from 3,000 to 1,500.

For Potlatch, another frustrating example of Canada's threat came in Prescott, AR, where we have extensive landholdings and a modern, state-of-the-art sawmill. A motel was built last year in Prescott within sight of our mill, using lumber manufactured in Vancouver, BC. The contractor used Canadian lumber because it was priced $13 per thousand board feet lower than the cost at our nearby mill.

Freight costs from Vancouver were $72 per thousand board feet at the time so the Canadian lumber had an FOB advantage of at least $85 per thousand on a product that sold at the time for about $235. Interestingly enough we believe that the average Canadian subsidy just about equals $85 per thousand on a nationwide basis. Potlatch generally outperformed the U.S. industry during recent years yet still cannot compete with Canadian lumber even in its own backyard when the Canadian mill is 2,000 miles away.

The U.S. lumber industry first sought relief from predatory Canadian practices in 1982 by filing a petition for countervailing duty alleging a subsidy by Canada. At that time the U.S. International Trade Commission denied relief on the grounds that Canada was not paying a subsidy and therefore not guilty of an unfair trade practice. That ruling was made based on the reading of U.S. law by the staff of the International Trade Commission. Later a court ruled that that interpretation was wrong and held a practice like this to be a subsidy. We have not refiled our case and believe we have a very good chance of being awarded a tariff.

To establish a basis for success in a new countervailing duty action, many members of the forest products industry developed a coalition of producers including Potlatch, International Paper, Georgia Pacific, Idaho Forest Industries, and about 600 other forest products companies. We have been able to develop a broad base of political support both in Congress and with the Reagan administration, thanks to the help received from you, Senator Symms, and Congressman Larry Craig. We very much appreciate your efforts on our behalf.

Our request for countervailing duty was filed in May and was officially accepted by the International Trade Administration of the Department of Commerce on June 6. The International Trade Commission has issued a finding of injury and the matter is now before the International Trade Administration to decide what level of duty is required to offset Canada's practices. That preliminary decision will be forthcoming by October 14.

We believe that a solution is needed in lumber to protect the U.S. pulp industry from the same kind of predatory attack. Recently we have learned that Canadian pulpmills are able to purchase chips at 50 cents per bone dry unit, compared to a cost of $25 to $30 on this side of the border. This is possible because the Provincial government assigns no value to residuals when calculating the value of stumpage.

Canadian pulp producers can obtain their raw materials at about 3 percent of cost to the U.S. mills. When this is combined with escalating number of direct grants and interest-free loans provided by the Canadian Government it is clear it will become harder and harder to compete with Canadians in the pulp business as well as in the lumber business.

We believe in free trade, but it must also be fair trade. All we're asking for is an opportunity to compete on an equal footing with Canadians. Thank you.

Senator SYMMS. Thank you very much for an excellent statement. The next witness is Bob Hitchcock from Evergreen Forest Products.

STATEMENT OF ROBERT HITCHCOCK, EVERGREEN FOREST PRODUCTS

Mr. HITCHCOCK. I am Robert Hitchcock, president of Evergreen Forest Products, a small lumber company located at Tamarack. Evergreen uses mostly Federal timber in the manufacture of dimension lumber and other wood products. Our annual production is about 60 million board feet. More than 80 percent of our raw material comes from the national forests. We employ approximately 75 people.

In 1984, we modernized our sawmill and installed a six megawatt congeneration facility. Our sawmill uses advanced computer technology, making us one of the most efficient lumber producers in the Pacific Northwest.

Even though our operations are efficient, we have found it virtually impossible in recent years to compete with lumber products made in Canada. Like others who own and operate forest products companies here in Idaho, I believe that our problem stems from a single source: Canadian producers are able to buy timber from their government for less than the fair market value of this material.

As a result, the Canadians consistently undercut our prices and their low-cost lumber products have flooded the U.S. market. What is truly ironic about this situation is that American producers are suffering severely from poor product prices at a time when demand and consumption of lumber has never been greater. Evergreen Forest Products has not been immune from such suffering.

Those of us who compete directly with the Canadians have long felt that they can price their lumber products below ours because they pay less for their timber. We have always believed—I suppose more or less intuitively—that their other costs of production must be similar to ours for the simple reason that the trees, terrain, and methods of logging, hauling, and milling the timber are similar if not identical on either side of the border.

Last October, the U.S. International Trade Commission confirmed our intuition, finding that in 1984, American producers paid average stumpage prices of $104 per thousand board feet while the Canadians paid an average of $12 per thousand in stumpage prices and timber dues. Such a wide disparity in the cost of stumpage has resulted in a substantial advantage to the Canadians in the cost of logs delivered to the mill. In 1984 the average delivered log cost in Canada was $166 per thousand compared to $205 per thousand in America.

If you will look at the first graph [indicating] you will see that the ITC also determined that in 1984 the average delivered log cost in Idaho was $147 per thousand versus $107 per thousand in the interior of British Columbia. When total material and wage costs were compared, the result was a further $20 per thousand increase in the Canadian advantage.

Mr. Chairman, while I know you are familiar with the ITC investigation, you may not be aware of two recent studies conducted not by Americans, but by Canadians, which show just how much Canadian lumber producers are subsidized by their governments.

As you know, nearly all public timber in British Columbia is allocated on a noncompetitive basis, with most of the "forest tenures" now controlled by 10 major corporations. The only British Columbia timber sold competitively is a minor amount auctioned through the small business enterprise program.

While the volume of timber sold through the small business enterprise program is relatively small, it provides a unique opportunity to compare the prices paid for timber under both competitive and noncompetitive circumstances. Such a comparison of revenues from both regular forest tenures and from the small business sales was reported in the July/August 1986 issue of Forest Planning Canada. This study showed that when timber was sold at auction, the British Columbia Government received—on average—three times the appraised price.

Using the three to one ratio as a benchmark, it was estimated that the holders of regular forest tenures in British Columbia have received at least $1.4 billion in government subsidies during the past 5 years. Another study completed by the Truck Loggers Association of British Columbia in 1985—and just made public—showed that the appraisal system used in British Columbia allows the major tenure holders there to receive about 25 percent more in reimbursement for their logging costs than they actually pay their logging contractors. Here again, we find a multimillion dollar subsidy.

Mr. Chairman, it is becoming abundantly clear to most Americans that our trade laws and policies often put domestic producers at a competitive disadvantage. That is certainly true, in my opinion, with the way the Government has been handling the Canadian lumber import situation.

For many decades, we defined a subsidy as any bounty or grant given by a foreign government to products coming into our country. In those cases, we would level a "countervailing" duty against those products in the precise amount of the bounty or grant. In an effort to work with other countries in the 1970's, we modified our longstanding policy so that now it must be determined that domestic industry is being "injured" by "subsidized" products before countervailing duties can be assessed.

While I have no objection to the "injury" test, I do object to the way in which the term "subsidy" has come to be defined. It seems clear to me and other objective observers that Canadian lumber producers are being heavily and unfairly subsidized by their government.

Those of us who are members of the coalition for fair lumber imports have been closely monitoring the countervailing duties case initiated by the coalition and now under review by the Department of Commerce. While we are hopeful that the Department will take a new tack with regard to exactly what constitutes a natural resources subsidy, we urge you and your colleagues to continue to press forward with a legislative clarification of this point. Just because a nation has come up with a clever way of providing a subsidy to one of its industries doesn't mean that it isn't, in fact, a subsidy.

Mr. Chairman, we appreciate greatly the leadership role you have taken on this issue and we look forward to continuing to work closely with you in the weeks ahead.

Senator SYMMS. Thank you very much, Bob, for an excellent statement.

The next witness is Tom Richards from Idaho Forest Industries. Tom has been very active in this process since the outset and we look forward to hearing your statement, Tom.

STATEMENT OF TOM RICHARDS, IDAHO FOREST INDUSTRIES

Mr. RICHARDS. Thank you very much, Senator Symms, Congressman Craig. I truly appreciate the opportunity to testify on the very important subject of the impact of international trade on Idaho's economy. I doubt if any sector of the Idaho economy has been impacted by foreign imports to any greater degree than the forest products industry.

Let me give the committee a quick historic perspective. In 1976, Canadian imports accounted for 21 percent of the softwood lumber consumption in the United States. By 1984 these imports had increased 31.4 percent and last year accounted for over 34 percent of the softwood lumber consumption. In some specific areas, such as dimension lumber, Canadian imports account for as much as 60 percent of our domestic markets. The Canadians argue that there are four reasons why they have been able to capture this share of our market.

First, they point out that the U.S. consumers and builders prefer Canadian lumber. This is absolute nonsense. There is no difference between lumber produced in the United States with the exception of price. When Canadians drop their price considerably below ours, yes, the customer is going to prefer Canadian lumber. Second, the Canadians point out that the only time the forest products industry in the United States complains is during bad market periods. We have to remind our Canadian friends that we had record years of consumption of softwood lumber in both 1984 and 1985 and will surpass these records again in 1986 and I would say surpass by a greater degree in 1986.

The problems we are facing are clearly not demand related, but related to oversupply. Third, the Canadians point out that their mills are more productive. Again, that is absolute nonsense. In Canada there is a mix of three kinds of mills—state-of-the-art mills, reasonably productive mills and reasonably inefficient—just as you find in the Pacific Northwest. Our studies show that the mills in Idaho producing the same products are equally productive as similar mills in British Columbia. And, finally, the Canadians point out that the real problem is the strong U.S. dollar. There is no question that the strong U.S. dollar has not helped and is part of the problem, but not to the degree the Canadians claim. Canadian inflation has run substantially ahead of U.S. inflation over the past decade wiping out most of the Canadian dollar exchange advantage.

The real problem is the Canadian practice of subsidizing the purchase of raw material. In Canada, where 98 percent of the timber is owned by the Provinces, the price of timber is artificially reduced so as to maintain employment. Under the free market system in the United States we maximize the return to the owner whether it be the U.S. Government, the State of Idaho, or private landholders.

It is clear that we're dealing with two totally different systems; one to maximize return to the owner and one to ensure employment. Regardless of what the Canadians may say, the only way that fair market value can truly be established is by seeing what a willing buyer will pay a willing seller in a free market. This does not take place in Canada.

The end result for the United States has been obvious—an ever-increasing flood of cheap Canadian lumber; thousands of wood products employees laid off; thousands of wood products employees with wages and benefits cut; and in States like Idaho dramatically reduced levels of funding for schools and roads.

The solution to this dilemma has become perfectly clear. For many months we have been trying to get the Canadian Government and/or industry to voluntarily cut back on their imports to our country. These negotiations have been totally fruitless. We are, therefore, asking for a countervailing duty to offset the difference between Canadian subsidized raw material and the cost of raw material under our free market system.

We are cautiously optimistic that such a duty will be approved by the Department of Commerce by early October. This kind of protection would appear to be available to us under present trade laws and since these trade laws are consistent with GATT treaties, should not bring retaliation. If we fail to get a duty by that time, it will be because the definition of a "natural resource subsidy" under present laws is not clear enough. At that point we will have no alternative but to push for legislation such as the Gibbons-Baucus bill that better defines natural resource subsidies.

Most of us in the forest products industry have long believed in free trade. By definition, however, free trade also means fair trade. All of the world's trading partners are supposed to operate under the same rules with no restrictions or government assistance. If and when this happens, the maximum benefit in the form of income, jobs, et cetera, are supposed to accrue to each country. When one country changes the rules, however, to give it a trade advantage, there is no longer free or fair trade. All we are asking is an opportunity to compete with our Canadian friends on an equal basis. Thank you.

Senator SYMMS. Thank you very much, Tom.

Next is Don Jensen with the Associated Logging Contractors of Idaho.

STATEMENT OF DONALD JENSEN, ASSOCIATED LOGGING CONTRACTORS OF IDAHO

Mr. JENSEN. Senator Symms, Congressman Craig, members of the panel, ladies and gentlemen, my name is Donald Jensen. I'm president of Associated Logging Contractors of Idaho. I reside at Star, Idaho. I also operate a land and livestock operation there.

Senator SYMMS. You're in all the good businesses these days.

Mr. JENSEN. I'm also a logging contractor for Boise Cascade Corp.—yes, I can't imagine how I got into these good businesses. But I have to say that my granddad homesteaded at Horseshoe Bend in Boise County in 1872; they were farmers. And it's just simply come down through the family.

Anyway, our association was formed in 1966 and has been recorded by Idaho State law as a representative for the logging industry in the State of Idaho. At one time association membership numbered over 900. Presently member rolls show 515 Idaho logging and forest road building contracting firms as members. The latest available numbers of employees in the wood products business in the State of Idaho are appoximately 13,000.

The Associated Logging Contractors of Idaho, Inc., commonly referred to as the ALC, appreciates the opportunity to participate in this important hearing for examining the impacts of international trade on Idaho's economy.

In general, Idaho's economy and wood products industry specifically have been devastated by international trade. The wood products industry has been impacted severely by Canadian lumber flooding our historic U.S. markets. In the past 3 years our members have been forced to take contracts which are substantially unprofitable, or have contracts with drastically reduced volumes in hopes of surviving until better economic times occur.

Savings have dwindled and logging and road building equipment replacements remain delayed. For many of our past members the wait for better economic times is over. The auctioning off of their equipment, bankruptcies and foreclosures coupled with lack of profitable work opportunities have ended their longtime logging or forest road building career. Its decline is rapidly turning into chaos. Our many long hours of hard work, severe cost-cutting measures and years of expertise cannot solve this back-breaking dilemma. Our industry needs help now.

At present, the United States allows record amounts of Canadian lumber to be imported. With the record importation of Canadian lumber, in our view subsidized Canadian lumber, we also allow the export of Idaho's logging, sawmill, forest road building jobs at record levels. Literature we receive indicates that the Canadian wood products industry supplies over one-third of the U.S. total demand for wood products. It further identifies that the Canadian lumber imports recaptured over 55 percent of the total U.S. demand for dimension type wood products.

Although we do not have direct proof of these percentages, we do know that there are substantially fewer logging and road building contracts at any price today than we experienced in the late 1970's. The contracts we are working under today carry a compensation rate which average about 15 percent lower than received in the late 1970's. If we buy our own stumpage and sell delivered logs to Idaho's lumber and plywood mills we are paid rates which are well below those we received in the late 1970's and early 1980's.

For example, our members can remember 1980 rates for true fir, Douglas fir and western larch logs which averaged a compensation of $185 per thousand board feet delivered to the mill. In comparison our price today is $150 to $155 per thousand board feet. More than 18 percent less today than 6 years ago. These types of logs are manufactured into dimension lumber. They exemplify Idaho's major economic impacts from Canadian lumber imports. Idaho's commercial forest land base has a majority of its timber in the true fir, Douglas fir, and western larch types. The glut of Canadian dimension lumber has drastically suppressed the market price of these type logs.

Other dimension product timber types such as lodgepole pine and young second growth ponderosa pine also reflect similar effects from Canadian dimension type lumber products. In fact, one of the principal reasons the Idaho wood products industry remains viable today is due to Idaho white pine and old growth ponderosa pine species. These two species or classes of timber are rarely found in Canada and obviously Canadian imports have not affected the market which these two species supply.

Due to present market conditions white pine and old growth ponderosa pine have provided disproportionately high percentages of timber harvest in the past few years. While values and demands for Idaho's major tree species have dramatically declined due to Canadian dimension lumber, Idaho's western red cedar lumber markets also seem to be swamped with Canadian lumber. The prices we receive for our western red cedar delivered to the mill have declined 20 percent over the past 5 years. The above information we believe is necessary background to set the stage for the rest of the direct effect of imported subsidized Canadian lumber. Stumpage cost—we are firmly convinced that there is a subsidization of the raw cost of material, as well as an indirect subsidization when you compare the U.S. forest land management policies with Canadian land management policies. The volumes of contracts also have a direct bearing.

Transportation, as well as tax advantages also are a direct subsidization of Canadian lumber. These items, as well as some others directly affect the numbers of people working in the Idaho wood products industry. Also, the size of the paycheck those who are working presently receive.

The timber industry in the State of Idaho is in fact in very dire circumstances. We desperately need help. We are not sure of the most correct answer to the problems that we have outlined, but we are sure that something must be done. Thank you for your time and attention.

Senator SYMMS. Thank you very much, Don. I know from talking to some of the mill operators that there have been wage reductions in some of the sawmills. The men working in these mills have suffered as a result of a lower paycheck to take home to their families. Has this happened with your loggers? Are they actually earning less today in dollar value than they were, say, 5 years ago?

Mr. JENSEN. A lot of logging contractors have discontinued benefits such as health benefits and, yes, in a lot of instances wages are much lower than the were.

Senator SYMMS. What else happened with respect to wages, like in your mills, Tom?

Mr. RICHARDS. Well, we froze wages for about 36 months starting in 1980 and January 1 of this year we cut wages and benefits $1.60 an hour.

Senator SYMMS. In addition to not having any cost-of-living adjustments for 3 years when there was a big rise in the CPI, they had an actual reduction?

Mr. RICHARDS. Right.

Senator SYMMS. So it has been a substantial burden upon the families of a lot of people in Idaho?

Mr. RICHARDS. I think there has been a lot of headlines about the number of people laid off. But I think this cut in wages and benefits has not received the publicity, but it's important or more important than the number of people laid off.

Senator SYMMS. Sure. It affects the ability of people to do the things they want to do and need to do to raise their families. No question about it.

How about the dollar's change in value, Todd? You say you have about half of the Japanese market; is that correct?

Mr. MADDOCK. For bleached paperboard for milk cartons, yes. And the dollar's exchange rate was a significant factor. Not so much in our case of allowing us to increase our share, but it certainly did firm up our competitive position versus some other countries who were competing for that same business. It has been very helpful to us.

Senator SYMMS. To have the dollar go down? How important is the Lewiston mill to Potlatch's Pacific Rim exports?

Mr. MADDOCK. The paperboard production at Lewiston in round terms is about 400,000 tons of product per year. That's in that pulp and paperboard complex. We're exporting probably 120,000 tons to Pacific Rim countries. The bulk of that is going to Japan. So that gives you some idea. Approximately a third of our production at Lewiston is going into the Pacific Rim; the bulk of that to Japan. Although Korea is a market that's looking very good to us——

Senator SYMMS. In dollar volume, what's 120,000 tons?

Mr. MADDOCK. We're talking about $80 million a year of the total sales in Idaho of maybe $400 million. And those are rough estimates.

Senator SYMMS. Of offshore exports, you're talking about? So a substantial part of everything Idaho exports comes right out of the Lewiston Mill?

Mr. MADDOCK. That's right.

Senator SYMMS. What you're saying is that if Canadians are going to start selling chips at 3 percent of what your cost is——

Mr. MADDOCK. That's a subject that is of great concern to us when we begin to see the effects of the Canadians on that element of our market, not that we aren't concerned about solid wood, but that's additionally a concern.

Senator SYMMS. Knock on wood. Assuming that we are successful—and Tom, you mentioned if we're not successful we have no choice but to pursue the natural resource subsidy legislation—I wonder whether the ruling on this case should have any impact on that legislation?

Will it take 1 or 2 years? In this case, it has actually been 4 years since you originally got started on this and lost the first go-around, and we don't know how the second round is going to come out. With all the damage that's been done, the cost to the families that work in the sawmills must be high as is the dislocation within the sawmill industry as a whole.

I spend a lot of time flying back and forth across this State and see raw product everywhere that's mature and needs to be harvested. We have the EPA and the Clean Water Act and the Clean Air Act and umpteen others to deal with, lawsuits to contend with, and all that is another issue, but it is relevant to the competition.

If you win this case, and we can get a rapid response, then maybe the National Resource Subsidy Act is not needed. What's your viewpoint on that?

Mr. RICHARDS. That would be my judgment. If we get a positive ruling out of Congress on the week of October 9, we don't need any further action.

Senator SYMMS. Well, the only thing I'm thinking about is the next time this happens. You're saying that if we can get the administration's cooperation on administering the trade laws, which we're now getting, we can actually protect ourselves adequately in cases where the playing field is not level?

Mr. RICHARDS. I think so. What should happen, Senator, of course the Canadians should finally see fit to come to the bargaining table and voluntarily cut back on their production.

Senator SYMMS. Let me tell you what the Canadians would do when they see us taking a 27 or, say, 25 to 30 percent duty to our treasury on their production to get the playing field level: at that point they will be ready to do something up there to get the playing field level so they can keep that money.

Mr. RICHARDS. They should see that it goes in their own treasury; right.

Senator SYMMS. I would hope it would go into our treasury, but I don't think we will be that lucky.

Mr. RICHARDS. The other comment that might be made about the wood chip situation that Todd Maddock talked about, is we have to bear in mind that as more and more lumber is produced in Canada and as they break records every month, they have to produce more wood chips. So there is an absolute glut of wood chips up there and if there is that glut when chip prices drop we can solve the lumber problem. They're going to have to drop back on lumber production and the wood chips will disappear too. And we will solve both problems.

Senator SYMMS. Don, you wanted to make a comment.

Mr. JENSEN. Mr. Chairman, you opened the door there a little bit for timber supply if this thing does get cut back. I have some figures here from the Boise National Forest regarding their timber sale program in fiscal year 1986. They have had 12 sales to date. This is going to be regarding the review of the forest plants. And what is really going to be devastating in this industry if we don't solve this problem or if we do solve it and the timber isn't going to be available.

The Boise Forest are selling 14 sales. They have already sold 12 of them. There is two to go and the four sales—or the 12 sales that they sold appraised at $2,241,000. The sales were bid up to $2,868,000 showing a profit of $500,000 for this year with two sales yet to go.

The timber sale program or the review of the timber sale is going to be centered around lack of demand and deficit timber sale. This shows a good demand for timber. It also is a good profit that erases any deficit on these 12 or 14 sales that were sold on the Boise Forest. And I also would like to add if we're going to create some jobs in the State of Idaho—additional jobs—it simply is going to have to be done through the forest products industry. It seems to me the only resource at this present time, Idaho is a resource State and this is the only resource that can immediately create some new jobs.

Senator SYMMS. So what you're saying is that: if you limit the amount of timber sales, those of you in the private enterprise wood processing sector will be forced to compete against each other for a limited government supply or for a monopoly supply of timber, which in turn compounds the problem of being competitive with the Canadians?

Mr. JENSEN. The timber sale program for fiscal year 1987 under the new timber sale program will be cut back to approximately 56 million feet, which is simply going to be devastating to this area.

Senator SYMMS. Larry and I have met with the Chief of the Forest Service on that issue with Senator McClure and told him it is totally unacceptable to Idaho. We have to go back and do those plans over because if you expand them to include other forests, there won't be enough timber sales to go around. If we end up in that situation; that is, if we're short just 200 million board feet—you're talking about 60 million, say, in your mill, Bob, and I don't know how much Tom's mills are—but if you start spreading that around, somebody's going to get squeezed out with the result being fewer jobs.

Mr. JENSEN. I also would like to mention that the present—these 14 sales on the Boise is 88 million feet of timber. If it's cut back to 56 million—now the thing is they have 88 million ready to sell next year. These sales are all—the process has all been taken care of. The other thing, if we had a wilderness bill this would be increased to at least 94 to 100 million board feet without having impact on game management of any kind. We could sell that and still grow more timber than what is being taken off the Boise National Forest.

Senator SYMMS. Larry, you have some questions, I know.

Representative CRAIG. Just a couple. I'm not going to follow the detailed questioning that Steve did because that ground has already been covered. But what portion of total sales of Simplot are international?

Mr. OTTER. Well, of the food division, roughly about——

Representative CRAIG. I'm talking about the big circle bottom line, the totality of the company.

Mr. OTTER. I would imagine that would be around 4 percent. But at the agriculture division—the reason I say that, Congressman, is because when I started we really were not doing much in export as far as the fertilizer business goes. Our big opportunity in the world today for the Idaho farmer and the Idaho processor is in vegetables—in the potato. And that right now represents about 9 or 10 percent of our company's sales.

Representative CRAIG. Over the past 12 months, where has the greatest loss to J.R. Simplot Co. come from? From loss or slowdown in domestic sales or in foreign sales?

Mr. OTTER. Domestic sales because of the Canadian potatoes that are coming in. Last year the United States, and Idaho in particular, had about a 10 percent increase in the production over the 1984 crop year. To give you a good example of the impact that it had on the Idaho farmer and the Idaho economy, the contracts that were written in April and May 1985 were written expecting the crop to be of a certain size, and we knew it was going to be a 10 percent increase. Those contracts were written at around $3.80 to $4 a hundredweight.

The actual market price of the open potatoes that the Idaho farmer kept for himself and was prepared to take his risk on the domestic market yielded back less than $2 a hundredweight because there was a tremendous increase in the influx of potatoes from Canada because they had a crop larger than what they normally had. Most of that came into the eastern seaboard and most of that obviously competes with the Idaho farmer.

Representative CRAIG. Todd, what percent of the Potlatch Co.'s sales are foreign?

Mr. MADDOCK. This is only an estimate, but I would say 7 or 8 percent.

Representative CRAIG. What percent of decline have you had in domestic sales in the last 12 months?

Mr. MADDOCK. Well, our——

Representative CRAIG. Let me rephrase that. Let's spread it 3 years. How much of the domestic sales that you once had and no longer do—in total sales?

Mr. MADDOCK. That would be including the solid wood products, pulp, wood, paper, everything we sell. Again, this would only be a rough estimate. I assume it would be somewhere in the range of 10 percent, but you realize that the kind of market we're involved in is determined by supply and demand. We're competing in a situation where rather than give up market share perhaps we have just lowered our price in order to operate at some point—to break even in many cases.

Representative CRAIG. Do your mills produce much for foreign markets, Bob?

Mr. HITCHCOCK. Very, very little. We have had certain products; ponderosa pine, for example, that has gone into Egypt. Some of the white fir, some Douglas fir going into Japan, but the percent of our total sales would be almost negligible.

Representative CRAIG. So it's catch-as-catch-can when the opportunity comes along if you really look at a domestic market for your company?

Mr. HITCHCOCK. We have to. Of course, even our domestic market used to be that the neighborhood of 50 to 60 percent of our products went to the north central there and a third of our volume actually went into the south, which dictated the freight and petroleum where our marketplace is. But demand for products has never been better. The price levels that we're seeing and the margins that we need don't exist.

Representative CRAIG. Tom, what percent of Idaho Forest Industries' sales are international?

Mr. RICHARDS. Negligible. We get an occasional order similar to the ones Bob talks about. We used to ship a small amount of railroad ties to the Canadian Pacific Railroad and we haven't done that in a long time.

Representative CRAIG. You have built your company based on a domestic market and not on a foreign market?

Mr. RICHARDS. Right.

Representative CRAIG. The reason I'm making this point, there has been a lot of hand wringing in Washington saying we can't do this or that because we will cause these great foreign markets of ours to react. On an industry-by-industry basis I expect, today, domestic industry in this country, if they could really just regain the economies that they have lost in their other domestic industry, would be very satisfying.

And the reason I use this as a point is because it concerns me greatly. And I think it forces us, and I hope it forces the Congress, to rethink its attitude and its administration as it relates to this great sacred cow of free trade. Synonymous with freedom of religion; synonymous with free enterprise; not synonymous at all. For some reason it was never written into the Bill of Rights. But there seem to be those that think it is.

I see what it has done to us in the last 48 months. And it has largely taken this huge consuming market that we have had in this country we have all built and that you have all built and given it to somebody else and said, "We built it. It's the wealthiest consuming market in the world, now you can have it. You can go produce for it and you can produce for it with wages of 60 cents an hour, $1.50 an hour while our people become unemployed."

The consumer is still there, but the problem—and I think Steve broached it very successfully—when you do wage cutbacks and that kind of thing, the buying power of that consumer begins to drop. the ratcheting effect is significant. That's my greatest concern as we wrestle with these trade problems in Washington—that we remove the halo, if you will, from the concept of free trade and begin to look at it on a product-by-product, nation-by-nation specific kind of basis.

There are some who simply said for every industry in this country that has a competing foreign industry counterpart, just simply put a 20 percent duty against it's product. For every product in this country that has a nonnational producer—domestic producer—let it come in with no duty. How would any of you react to that kind of philosophy or attitude?

Mr. OTTER. Well, as far as I'm concerned, Congressman, if they wouldn't have a duty, well, I wouldn't want a duty. I don't mind competing, but it's either in terms of the host government who advantages my competition in their marketplace than my government advantages my competition from outside the United States in my own domestic marketplace. I would just as soon—I like the idea of 20 percent, that would be great. I would just as soon there be no restrictions on either side. Level the playing field.

Representative CRAIG. But we're going to make the assumption that that is a panacea that will never exist in the Nation.

Mr. OTTER. Then you're going to have to make some adjustments, and I think you're going to have to do it on an industry-by-industry, product-by-product, country-by-country basis.

Representative CRAIG. You would see that as the reasonable approach instead of these national multi-national agreements that have too many bottoms to push.

Mr. OTTER. Absolutely. And who understands them besides the lawyers housed there in Washington, DC? The chairman talked a little bit earlier about our experience with another company that we have an interest in here in Idaho; Micron Technology. Had we gone back there and hired the top guns back there instead of taking our own people who really understood the total networking of our problem, we would have run out of money before we would have secured a resolution to the problem.

Senator SYMMS. Without being real critical of them, part of the problem is that some of those companies back there have a vested interest in helping keep this thing confusing. So when people come from what I call "outside the beltway," they have to hire those same so-called "insiders" to get the job done.

Representative CRAIG. Confusion is money.

Senator SYMMS. People believe they have to go to these specialists because the trade laws have become so complicated. That's why I feel encouraged about what the Commissioner said about the attitude of the Commerce Department in helping to carry out these cases.

Did I state correctly that you felt good about the Commerce Department once you found the right guy?

Mr. OTTER. That's what I heard. I felt that—the founder of our company felt very good about what happened. Not just because it came down in his favor, but also because he was understood. The totality of the problem was understood, it was felt. There wasn't just some, you know, some sort of sympathy offered as has been the case in the past, but the problem was really understood and they went to work.

Senator SYMMS. I think this is about it. The administration has come a long way since 1982 on demonstrating a willingness to help us resolve the lumber issue today. And I think that the President, when he made his first public statement on fair trade and getting the playing field leveled here in Idaho in October 1985, that was the first day that he actually ever made a public statement that he was going after fair trade laws.

If you look at the record, the administration has filed more unfair trade practice cases than any other administration in the last 25 years. We're in a different world for trade today than it was 10 years ago. We can no longer just take in everybody's products. We have financed our competition with our own tax dollars. We've used our own management skills and our educational system to train people to go around the world and use our money to put in their production plants. And they have now. The world's awash with grain and everything else and they don't need all of our products and we can't just take all theirs until we get this thing balanced. And I think we're on the right track, which is certainly going to be difficult. I don't know whether Larry has any more questions.

Representative CRAIG. I just wanted to follow up, Mr. Chairman, because of Potlatch International's involvement and ask Todd would Potlatch—the greatest benefit to Potlatch would be to regain its domestic market vis-a-vis the foreign market?

Mr. MADDOCK. Certainly we don't want to discount the importance of our international market, but without a doubt our domestic market is the largest single market we have and obviously it has the greatest importance to us.

Senator SYMMS. Don, you wanted to make a comment?

Mr. JENSEN. Yes. I have one other thing that I think is real important to the industry. If Idaho's timber industry is to survive at its current level then the national forests must now begin to meet their share of the State's timber needs. The draft plans of the Panhandle, Clearwater, Nez Perce, Payette, and the Boise National Forest must be modified so that total allowable sale quantity increases from 679 million board feet to 900 million board feet——

Senator SYMMS. Say that loud, Don. I want them to hear that on the television.

Mr. JENSEN. That's 679 million board feet to 900 million board feet. While this increase is large it is not unreasonable. Since each forest could choose an alternative plan that would reach the timber supply goal and still meet other needs for quality hunting and fishing. Undeveloped and developed recreation plus scenic beauty. Without this increase, Idaho will lose 2,000 timber industry jobs, 4,000 to 6,000 jobs in related industries; $40 million annually in timber payrolls; $2 million annually in State tax revenue and $2.5 million in school and county road funds.

Senator SYMMS. That's a very critical point. And I might just say that Senator McClure is in Idaho also this week. He came out the day before yesterday, I think. We both went straight from the Senate floor to the airport and caught the morning flight. I think it was Saturday morning.

We have scheduled for this coming week a Forest Service planning hearing in Grangeville. There is one at 9:30 to 1:30 in Emmett on Forest Service planning Friday morning and one in Grangeville Friday afternoon on that question where we could take input from the public on that question. Where is the other one?

Mr. MADDOCK. Coeur d'Alene.

Senator SYMMS. Coeur d'Alene; Thursday morning at 9:30.

Mr. JENSEN. Emmett is Friday morning at 9:30.

Senator SYMMS. Coeur d'Alene is Thursday morning at 9:30, then Emmett Friday morning, and Grangeville Friday afternoon. We hope to get some testimony on that. But I think that's critical, this whole question. For the long haul, we have to resolve this question in the Pacific Northwest. The timber supplies are in the Pacific Northwest to meet the Nation's softwood timber supplies and they're locked up in a government-ownership pattern that's very monopolistic in its input.

And if this was owned by Potlatch Corp. and you sold it the same way the Government does we would have you in court for antitrust violations so fast that your head would swim. It's just amazing how the attitude is so different. When the Government does it, the rules are out the door and they can get away with anything, but when private enterprise tries to do it they have an adversarial contest to get over all the Government obstacles.

Gentlemen, thank you very much. I know you're all busy. I appreciate your input in this hearing. And we're going to keep taking these messages back to the Congress and the Reagan administration because we think this is critical to the survival of the resource-based economy in the United States. And, after all, everything people have comes out of a hole in the ground one way or another.

Without the production of new wealth and new products, we can't survive as a country and maintain our strength and posture in the world and actually keep our freedom. I think it's important that we recognize this is an important part of our free society. Thank you again.

[A short recess was taken at this point.]

Senator SYMMS. We'll get started again where we left off. And as usual, I always start the hearing out with the intention to keep on schedule, but it seems like we always slow down a little bit.

The next panel is Jim Little of Idaho Cattle Association. I don't see the Stegners here. Stan Boyd is here from the Idaho Wool Growers Association; Harold Blain, American Dry Pea & Lentil Association; Tim McGreevy, Idaho Wheat Commission. Thank you for being here, and Jim, why don't you start off.

STATEMENT OF JIM LITTLE, IDAHO CATTLE ASSOCIATION

Mr. LITTLE. Thank you, Senator and Congressman Craig. My name is Jim Little. I am president of Idaho Cattle Association. I appreciate the opportunity to appear before you today and present some thoughts of the members of our association. I operate a commercial cow and calf operation in those now blackened hills north of Emmett in the area of Squaw Butte. At times I do carry my calf crop through to finished weights in my own operations or in custom feedlots. I have a good feel for all facets of the cattle industry.

I will not dwell upon the financial difficulties of the 1980's that plague all of American agriculture. Efficient production combined with declining markets tell part of the story. The balance can be told in our balance of foreign trade, the negative margins of our export dollars and the impact of this upon American business.

Let's review the past for a moment. There is an old adage that tells us that those who ignore the tragic lessons of history must relive the tragedies of the past.

Following World War I, the United States adopted a strong protectionist policy otherwise known as the Smoot-Hawley Tariff Act. In the 1920's this country enjoyed a false prosperity. We sold a wide variety of products for export while our tariff walls only allowed us to purchase financial obligations from abroad. We exported dollars to allow us to export goods in exchange for doubtful financial paper. When the stock market crashed in October 1929 we stopped exporting dollars. And we soon stopped exporting goods and found ourselves in the midst of a Great Depression. We learned something about protectionism in this process; we learned that it didn't work. We learned that we can prosper when we have an even balance of foreign trade where the income equals the outgo and each country produces to its economic advantage.

During the 1930's we started to overcome this trade deficit by inaugurating a policy of reciprocal trade. We enacted new trade laws under this concept. This proved to be good for business and we moved cautiously into this concept.

Then came World War II. It created an economic boom as we demanded cash payment for war materials from our allies in Western Europe. After England and France had liquidated a great many of their foreign investments, we relented with a lend-lease program. This was a coverup as we leased bases from them in exchange for the goods we were selling.

Then came the real war and we spent billions of dollars to save our western allies and to defeat Japan. After the war we continued to spend money to rebuild the war-torn economies of our allies and even of our former enemies. Even today we have a huge commitment of dollars for national defense as we defend the democracies of the free world. This takes a big bite from our gross national product, one not shared proportionately by the people we are "defending." This is a great burden upon American finances.

In rebuilding Japan, General MacArthur took some extreme measures to limit future aggression by that government. He gave strong control of the political machinery to the rural minorities. He did this to limit the control of power-seeking politicians in the cities. The country boys were quick to convert this power to their own benefit. They have fiercely protected their own markets for fruit, vegetables, and beef. They severely limit the amount of American farm commodities that can enter Japan. And what is allowed to enter comes through the doors of special interest Japanese importing companies. What they pay us for our product and what they sell it to the Japanese consumer for are two very different prices. We are not allowed any freedom in merchandising agriculture production in the Japanese marketplace. The preference of the Japanese consumer for quality American beef is ignored. They are offered quality Kobe beef at outlandish prices.

The Japanese beef industry has only limited land resources available for its use. Their high production costs are well protected. We do not have free trade with this major trading partner. We do not have the freedom granted Japanese television, camera and auto makers have in promoting and selling their products in this country.

Through the efforts of the Beef Export Federation, we have made a small dent in the oriental market. This federation does have offices in several oriental locations including Japan. Idaho supports this effort through a payment to the Beef Export Federation by its Beef Council in the amount of $5,000 per year.

In dealing with our trade deficits, we do not have reciprocal trade. We send many dollars to the Orient, but they do not return to purchase American goods, the production of our farms and factories. They do return to purchase equity in American land and business corporations. Is this healthy for America? What is great and desirable about seeing General Motors, Chrysler and other major American corporations forming financial and production partnerships with our foreign competition.

We used to be the steelmakers for the world. Where are we today? U.S. Steel is now U.S.X. When I went to Emmett High School, X stood for an unknown quantity.

Senator Symms, I believe, as do my fellow cattle association members, that the time is long overdue for America to draw the line, for the United States to cut off all foreign trade immediately! This is drastic action! But it is an economic solution to an economic problem. Up to now we have been accepting second best in political trade negotiations. If we would do this today, our foreign trading partners who so enjoy selling to us would come forth to make deals on a businesslike basis. We could talk about equal terms in selling products in which both sides have economic advantages. I suggest that the whole matter could be settled by the end of the week.

The Japanese people love our high-quality beef. Open markets in the Orient would provide an excellent export market for the vast areas of foreign production in our country. They would provide a market for our alfalfa hay, corn and barley in the processed form of choice beef. This would help us regain those export markets so desperately needed by our agricultural economy.

Senator Symms, we have been nice guys long enough. And you know what Leo Durocher said about nice guys not winning baseball pennants. About 25 percent of our gross national budget is devoted to defense expenditures. While we vow to remain free and strong, the rest of the free world reaps the benefits of our efforts. While we pay the bill in defense of the free world, they devote their efforts and energies toward selling on the free American market.

Let us do business as businessmen. Our time for being nice and understanding should be exhausted. We have avoided the pitfalls of protectionism on only one side of international trade. We have always come out second best in GATT negotiations. Let us now approach such meetings with a cash balance sheet in hand. We are tired of protectionism on their side of the bargaining table.

I do have some figures that show what has happened in the past since 1978. Senator Symms, it's quite obvious that the Japanese do not have the desire to buy this product or many others from us. The pork figures are similar to beef in percentages. Agriculture Secretary Block spoke to us last January here in Boise. He said that we must regain our export markets. We all agree to this.

In regards to trade with Canada, we feel it is important that we proceed cautiously with inequities of trade. First, it is imperative that we get the testing for blue tongue on U.S. cattle—double testing for blue tongue on U.S. cattle going to Canada remedied. At the present time we have a 2-week delay and it makes it virtually impossible to send cattle north. Also corrections should now be made in the inequities of Canadian cattle coming across the border in the west to the United States, which while to the eastern part of the continent the U.S. cattle move north to Canada for slaughter.

This appears to be more of a Province problem. The western Provinces make it easier for cattle to come into our area and at the very least these "subsidies" of Canadian cattle should be equalized. In July we sent one of our board members, Dave Nelson of Mackay, north to the summer meeting of the Alberta cattlemen to the Canadian Cattlemen's Association. He came away with a feeling that our counterparts in Canada do want to have a level playing field as badly as we do. Let us, as businessmen, demand equal access in regaining these markets we have lost.

Senator SYMMS. Thank you very much. In other words, what you say is if we just shut the door on everything today, that by Friday they would all be in here willing to make a fair deal with us?

Mr. LITTLE. I sure believe so.

Senator SYMMS. Stan Boyd from the Idaho Wool Growers Association.

STATEMENT OF STAN BOYD, IDAHO WOOL GROWERS ASSOCIATION

Mr. BOYD. I thank you, sir. The Idaho Wool Growers are very appreciative of this opportunity to comment on those factors that have placed the Idaho lamb and wool industry in a position of severe competitive disadvantage in regards to the marketing of our products.

I believe you and Congressman Craig have long been supporters of this State's lamb and wool industry. We certainly thank you both. I believe that the one most significant problem affecting our industry today is the unrestricted and the virtually unmonitored importation of foreign lamb into this country.

I believe that we have all learned that free trade is a concept that should constantly be pursued. But I think we have all found that when we throw our doors open, we are, in essence, inviting and encouraging foreign lamb competitors to implement rules and regulations that place our production at a disadvantage.

Some 10 years ago, I personally became involved in the Idaho sheep industry. At that time, Idaho possessed 520,000 head of breeding stock. At the beginning of this year our stock numbers were 301,000 head. That amounts to a right out 42 percent reduction. When you look at the process, Mr. Chairman, I believe you can see that the reduction can be tied directly to the ANZUS pact. This agreement between Australia, New Zealand, and the United States has allowed very heavily subsidized foreign lamb to enter this country at will and virtually unchecked.

A year and a half ago the National Wool Growers Association applied with ITC for a countervailing duty. There has been a duty level of 19 cents per pound on the foreign lamb. We certainly appreciate this action, but it is merely a token measure and has not affected the flow of import lamb. We have found that the imported lamb into this country last year was 34.7 million pounds, the highest level since 1979.

We estimate that the foreign lamb imports for 1986 could reach upward to 53 million pounds. We expect such a flood of imports because our market today is very strong. We found this strong market due primarily to the shortage of domestic lamb. I would like to say the whole ag economy is being focused on, and they say we're in terrible shape and indeed we are. The domestic lamb market right now is quite strong. I believe that's simply because our industry went through the recession some 3 years before the rest of that. We have seen, just in the last 3 years, our numbers drop some 35 percent.

But allowing the imports to enter this country at will has halted prematurely the recovery process undertaken by our industry with this exact same situation well underway to date. We believe a viable solution to this long-standing problem could be realized by amending the Meat Import Act of 1979. This amendment stipulates that in no event can the lamb imported into the United States be a greater percentage of the total lamb supply in the United States than are beef imports as a percentage of the total U.S. beef supply.

Imported beef for 1985 was 7.7 percent of the total beef supply in the United States. Lamb imports were 9.9 percent of the total lamb supply. Thus, under the provisions of this bill, if enacted, lamb imports would have to be reduced from 9.9 percent to 7.7 percent. This would find that instead of some 35 million pounds being imported, we would only have 26 million pounds. More importantly, the potential for large increases in any 1 year would be checked.

Senator, lamb accounts for 85 percent of the wool growers' income. It is time for legislation to be enacted that will allow our domestic producers to compete fairly with foreign products. We here in Idaho possess natural and physical resources to support a viable and very productive lamb and wool industry. With your help, we have no doubt this can be accomplished. Thank you.

Senator SYMMS. Thank you very much, Jim. I was trying to get the correlation here—and I do want to hear from everybody, but I want to ask this one question. You have the numbers here on beef. The quota was triggered in 1980 on 10.8 percent on beef. You might look at Stan's figures there, Jim.

The figure was 8.6 percent in 1981; 8 percent in 1982; 7.1 percent in 1983; 7 percent in 1984; and 7.7 percent in 1985. And your amendment, Stan, simply would say that the lamb would trigger at the same time the beef triggers?

Mr. BOYD. Yes, sir. Not only would lamb be figured in at the total level of imports, but it would be tied directly with the beef. So I think the trigger quota in 1985 would be 1.3 percent. Say lamb was part of that, then still the trigger quota would be 1.3 percent.

Senator SYMMS. Would the cattlemen support that?

Mr. LITTLE. I think they could, I don't know.

Senator SYMMS. I appreciate that. We will pursue that a little further. Thank you.

Next, Harold Blain, executive vice president of the American Dry Pea & Lentil Association, Idaho, and Washington Pea & Lentil Commissions, Moscow, Idaho. Nice to have you down here, Harold.

STATEMENT OF HAROLD BLAIN, AMERICAN DRY PEA & LENTIL ASSOCIATION

Mr. BLAIN. Thank you, Senator, Congressman Craig. Last year the industry produced 388 million pounds of dry peas, lentils, and chickpeas in the Pacific Northwest. Approximately 75 percent of that production is exported to over 50 different countries. We are not a price supported crop.

World production of dry peas has not changed appreciably over the last 5 years. However, there has been a significant increase of dry pea production in Europe. This has come about primarily because of EEC's efforts to increase the production of protein feed crops in order to reduce the EEC's dependence on imported feed grains.

A subsidy program was initiated in July 1978, which was a major factor in increasing dry pea production in Europe. Pea production in France, the United Kingdom, and Denmark registered an increase of 295 percent in the period from 1980 to 1984.

Although the objective of the EEC subsidy program was to increase the production of dry peas for feed purposes, the increased production has resulted in higher quality peas being sold into edible commercial channels, and thereby reducing the volume of dry peas imported from the United States.

Since implementation of this subsidy program, U.S. dry pea exports have fallen from about 23 million in 1978-79 to approximately $1.5 million last year.

Seven years ago the United States was selling zero dry peas to India. In 1979, the industry initiated a market promotion program aimed at acquainting the Indian consumer with the higher quality U.S. peas. India is the third largest producer of dry peas in the world. However, it consumes all of its production. With a population of approximately 780 million people and a projected increase of 2.2 percent annually, it appears there will be a sizable deficit for years to come. The industry efforts have resulted in India becoming the number one market for U.S. green peas, reaching a high of 30,000 metric tons in 1984. As expected, other countries such as Australia and New Zealand are now selling into this market, which is normal in any competitive market situation. The U.S. pea industry is, however, facing increased pressure from subsidized competitors such as Canada.

U.S. pea exports to India reached about $8 million in 1984-85 and today we are running at only about half of last year's movement. Increased Canadian exports are primarily responsible for this drop in the U.S. market position. Canada has added pluses to the list of commodities eligible for substantial internal transportation subsidies. The Canadians currently pay only a third of U.S. costs to move commodities from the farmer to the port. This, coupled with the strong U.S. dollar has undercut U.S. delivered supplies to India by approximately $40 a metric ton.

In the early 1980's we had developed a good market for lentils in Algeria. This market went from 30,000 metric tons a year to zero in the space of 1 year as Turkey replaced the United States as a major supplier. This was largely due to Turkish farmers planting lentils on a summer-fallow land, which increased Turkish production from 195,000 metric tons in 1980 to 570,000 metric tons in 1984. This resulted in increased Turkish exports going from 97,000 metric tons in 1980 to 310,000 metric tons in 1982. It is bad enough when we have to fight against foreign government subsidies, but these winter hardy lentils were developed for Turkey from a U.S. subsidized international research program in Syria. It seems ironic that the United States can provide funds for our competition's research programs while at the same time reducing funds for U.S. agricultural research programs.

Senator SYMMS. Was the source of that money through the foreign aid bill or through the World Bank?

Mr. BLAIN. Primarily through the World Bank.

Senator SYMMS. I think I have told you, Harold, that you were the author—you just didn't know it—of my bill that we call the FAIR bill—to reform foreign agriculture investment the way the United States has done it. We literally, when we get into it, are financing our own competition in every instance in one way or another—all of this ag expertise. This was a question I had marked there before you said that was where the seed came from. But, in other words, it wasn't seed that was developed and sold from the United States——

Mr. BLAIN. No, it was not. The seed came from the new varieties that were developed in Syria from the international program there. I think that you're on the right track, frankly, with your efforts to get this money redirected from those areas.

Senator SYMMS. We have suffered, though, enormously already. The damage, you know, to mining and agriculture from U.S. taxpayer dollars financing their competition, it's going to take a long time to change that atmosphere. It may be now that they can generate some of their own and that it won't make that much difference. We have already done it, but I still think we have to pursue it. Go ahead. I didn't mean to interrupt your statement.

Mr. BLAIN. I have some suggestions along that line, too.

The industry in July sponsored an International Legume Research Conference in Spokane, WA, which drew 450 delegates from 50 different countries and showed that we have international resource capabilities already in place. We are currently in the process of developing a proposal to submit to Congress to establish a regional international legume research project for the Pacific Northwest, which will cooperate with all international programs.

We hope that Congress will give the same due consideration to providing $2 or $3 million for this program as it does in providing $5 million for our competitors. We are not asking Congress to increase the present budget, only to consider changing its direction and priorities for foreign aid. We could still provide a valuable service for developing countries by developing a solid training program here and at the same time give substantial benefit to U.S. farmers and the local economy.

In spite of all these problems, we realize that we just have to work a little harder to maintain current markets, and this we are doing. The pea and lentil industry was one of the few commodities that showed an increase in sales last year. And that was because of a very aggressive industry promotion program.

We recently were awarded $2.5 million of Targeted Export Assistance (TEA) funds for our export promotion programs. These funds will be spent in India, Colombia, and the EEC to assist us in regaining these markets. We are not afraid of competition; we just don't like unfair competition.

Senator SYMMS. Thank you for an excellent statement.

Tim McGreevy from the Idaho Wheat Commission.

STATEMENT OF TIM McGREEVY, IDAHO WHEAT COMMISSION

Mr. McGREEVY. Well, Senator Symms and Congressman Craig, glad to see you here—Congressman Craig was unexpected—and members of the Monetary and Fiscal Policy Subcommittee of the Joint Economic Committee, I'm Tim McGreevy, executive director of the Idaho State Wheat Growers Association. I speak for the members of the Idaho Wheat Commission and the wheat producers of which we represent. Thank you for this opportunity to express our concerns about the rapid deterioration in our export markets and present several solutions which will once again make our product competitive in the international marketplace.

The agriculture industry was recently staggered by the news that for the first time in more than 25 years, the United States reported 2 consecutive monthly agricultural trade deficits. These deficits have dashed any hope of improving an already alarming U.S. agriculture trade picture.

The value of U.S. agriculture exports in 1985 decreased 18 percent from the previous fiscal year level, while during the same period agricultural imports increased 4 percent to a record level of $19.8 billion, resulting in a decrease of 40 percent in the agricultural trade balance to $11.5 billion, the lowest surplus level since fiscal year 1977.

The May trade deficit only reinforces the dismal trade projections for this fiscal year. Agriculture exports by value are projected to fall another 13 percent while imports are expected to increase slightly, leaving a projected agriculture trade balance of only $7.5 billion dollars. However, during the October-May portion of fiscal year 1986, the overall net surplus of agricultural trade amounted to only $4.8 billion, 48, percent below the net surplus achieved during the same period in 1985. If the level of wheat exports during June and July are any indication of the prospects of meeting the export projections, actual exports will fall far short of the projected target.

More importantly to the Idaho wheat producer is the negative effect which the drastically reduced levels of U.S. wheat exports has had on his economic viability. During the 1985-86 marketing year, U.S. wheat exports totaled 915 million bushels, the lowest level in 15 years and only 53 percent of the record level of exports achieved in the 1981-82 marketing year.

Wheat exports in the 1985-86 marketing year from the Pacific Northwest (PNW) are reported by the USDA at 282 million bushels, 21 percent below last year's export level and 34 percent below the export level in the 1980-81 marketing year of 431 million bushels.

Given the Idaho wheat producer's proximity to the PNW export terminals, the predominant class of wheat grown and the fact that 30 percent of all U.S. wheat exports move through PNW ports, our producers' and our State's economic viability have been depressed due to lower wheat exports.

In the 1980-81 marketing year approximately 85 percent of the white wheat produced in Idaho—the class of wheat which encompasses 70 percent of our total production—was exported. In contrast, during the recently completed crop year only 64 percent of the White wheat produced in Idaho—representing 65 percent of our total production—moved into export markets. Even though Idaho producers have reduced production by 32 percent since the 1980-81 crop year, exports have decreased over 50 percent between the same years, outpacing the reduction in production.

It is not surprising that wheat stocks in all storage positions in Idaho as of June 1, 1986, totaled 47.8 million bushels, an increase of 14 million bushels from the same time last year. The lack of export demand and the huge stocks are price depressant and are adversely affecting producers' income.

The two main problems affecting the wheat industry have been the strength of the U.S. dollar and the contention that the loan price has caused our wheat to be overpriced on the world market.

Changes in administration policy has devalued the U.S. dollar some 30 percent from its highest point in 1985 and the Food Security Act of 1985 has reduced the commodity loan price by some 27 percent. Even these developments have not increased wheat exports. During the first 2 months of this marketing year wheat exports are only 10 percent more than at this time last year, far below the level required to meet the USDA's projection for this marketing year of 1.09 billion bushels.

Why has the dollar's decline and the lower loan price not translated into increased exports? The answer is that the reported decline in the dollar has been measured only against the member currencies of the so-called G-5 group, none of which are highly significant with regards to world wheat trade. From the producer's perspective, the Canada dollar—which has dropped in value even more than the U.S. dollar—the Australian dollar—which has devalued equally to our dollar—and the Argentine peso—which is fixed against our currency and has declined accordingly—are much more significant to us. Because of these corresponding currency devaluations, the lowering of their prices to just below the U.S. loan price by our competitors and the decline in the currencies of many importing countries vis-a-vis our dollar, we are still being underbid by our competitors in the reduced global market. The only difference in this scenario as compared to the last 4 years is that now our farm gate price is much lower.

What can be done to assist Idaho producers? First, expand the Export Enhancement Program to all countries. Of the 5 million tons of wheat sold to date under EEP, only 192,000 tons has been White wheat and only one Pacific Rim country (the Philippines) has been allowed entry into the program. The expansion of the EEP to the Pacific Rim countries and other historic markets will allow the PNW to particpate in this program to a much greater extent.

The EEP in its current status is discriminatory against PNW White wheat. Because the program has been geared toward EEC customers, the USDA has encouraged the substitution of lower priced Soft Red wheat as compared to Soft White wheat from the PNW. For example, Egypt was the largest customer for PNW Soft White wheat between 1980 and 1985 averaging 44.5 million bushels per year. During the 1985-86 marketing year, Egypt purchased 4.5 million bushels of White wheat, half of which was under the EEP program. However, purchases of Soft Red Winter wheat under the

EEP program during the last marketing year totaled 52 million bushels. EEP bonus for Soft White wheat has been $1 to $4 per metric ton more than the bonus for Soft Red wheat. We would ask that the USDA support the slightly higher "bonuses" to allow Egypt to purchase PNW White wheat under the program.

The announcement that 4 million metric tons of EEP to the Soviet Union is a case of too little and too late. Though we applaud the announcement, we have to agree with the grain trade that the bonus of $13 per ton and the "window" allowed to complete the purchase are not sufficient to move the outstanding wheat remaining under the LTA. Though the intentions of including the Soviet Union was well directed, unfortunately, the action may have done more harm by further alienating the PNW's historic and reliable customers who wish to be included in the program.

The expansion of EEP program would serve several purposes. It would address the cliche of "a level playing field" by not only targeting EEC predatory subsidizing practices, but also those of our other competitors; that is the Canadian freight subsidy which has not been addressed by the administration. Expansion of the program would also tell our competitors, as well as our customers, the United States is no longer willing to store 56 percent of the exporting nations' total wheat carryover and that we expect our other wheat exporters to also cut back their productions during these years of excess supply.

Several other actions could also assist in regaining our export markets. First, we would like the inclusion of a "marketing loan" for producers of wheat and feed grains in the farm program for 1987.

The success of this type of program is evident when evaluating U.S. rice and cotton exports. With the inclusion of a "marketing loan" to rice producers for the 1985 and 1986 crops, rice exports for the 1986-87 marketing year are projected to increase 32 percent over the previous marketing year level due to, as quoted by the USDA, "sharply higher sales."

Second, we would ask that agriculture exports no longer be traded off by the Department of State and the Department of the Treasury as foreign relations and debt restructuring tools, respectively. Numerous examples are available to show the devastating effects of these two government agencies with regards to farm exports.

Third, we would ask that the administration adhere to the trade section of the Food Security Act of 1985 and appoint the Special Assistant to the President for Agricultural Trade and Food Aids. The appointment was to be completed by May 1, 1986, but as yet, no action has been taken.

Finally, we support several of the recommendations presented by the President's National Commission on Agriculture Trade and Export Policy. Specifically, the recommendations are:

> Reorientation of food aid and economic assistance to serve long-term market development objectives, with substantial reliance on policies designed to promote private-sector and free market-oriented growth in developing countries;
>
> Targeting of market growth potential in Third World Countries * * *;
>
> Strengthening of agricultural interests and streamlining of decisionmaking in the agricultural trade-policy process, to provide a more equitable and expeditious response to agricultural trade needs.

Members of the wheat industry in Idaho and from throughout the United States are deeply concerned about our worsening economic condition brought about in part by the loss of our export markets. The Idaho Wheat Commission urges you to consider our recommendations and begin the process of implementation. Further consideration of the problems and possible solutions is not needed. The time for action is now. Thank you.

Senator SYMMS. Thank you very much, Tim. When the rather controversial question of the enhancement program being extended to the Soviet Union was brought up on the Senate floor, I asked the question of the majority leader if this included all the Pacific Rim countries. He answered in the affirmative that it did, but you're saying it doesn't?

Mr. MCGREEVY. It does not. The Soviet Union is the only country right now that has been granted this extra extension beyond the EEC subsidized countries.

Senator SYMMS. In other words, Japan, Korea, and Taiwan, they only get the bushels they buy? They're getting no enhancement program?

Mr. MCGREEVY. That's right. China was being considered by the President, we understand, for expansion as was the Soviet Union. He decided only to go with the Soviet Union. I just learned today that the sugar program—China has been extended—in the sugar program China has been allowed to come in and be subsidized somewhat by this country in sugar exports. In fact, we dump most of our sugar to China. We want to know why the wheat industry can't have the same privilege in China, which would greatly help the Pacific Northwest.

Senator SYMMS. You mean we're starting to buy sugar from the Chinese Communists?

Mr. MCGREEVY. No, we're exporting sugar at a subsidized rate—I think it was 4.7 cents or something like that—to China. It was just announced. Today I have it in my news packet. It's just a short paragraph. We want to know when the President granted this, but we want to know why we can't move into the wheat industry and do the same thing?

Senator SYMMS. It's my understanding that the Export Enhancement Program, which was designed to help the American farmers, was supposed to go evenhanded across the board to everybody, not be discriminating against any customer.

Mr. MCGREEVY. That's what we had understood when we first understood law. That's what we pushed for as an industry, Senator Symms. But so far it's only been directed at EEC and has not been expanded to the Pacific Rim countries which are major markets in the Pacific Northwest.

Senator SYMMS. Harold, you said you had some more ideas on that. I don't know whether you want to elaborate on that today or not. But we would be glad to get those ideas from you when it's appropriate.

Mr. BLAIN. One of my ideas is, as I mentioned, I think that we need to look at spending some of our tax dollars here to develop research programs here that can cooperate with the international communities. I'm not against putting money into programs that are going to help starving people eat. I think that's part of our responsibilities. But I do not think that it's our responsibility to put money into programs that are going to directly compete with our farmers here. I have no qualms about bringing these developing country people here to learn from us.

And it seems to me that we could put our money here and then our farmers would benefit from it and we could still help the developing countries overseas and the money would be spent here in our own economy, which I think makes sense.

Senator SYMMS. That's interesting that you mentioned that. I happened to be here in Boise the day they dedicated the new Micron building at Boise State University. The thrust of J.R. Simplot's speech is that we need to bring people to the United States and educate them here and send them back home and make that an industry in the United States that we can benefit from. They would pay to come here to be educated and that's basically what you're saying.

Mr. BLAIN. That's what I'm saying. We need to look at developing some kind of a model program, which I think we could do here. We have the international capabilities already. We have the scientists; we have the facilities. What we don't have is the resources to put these people to work.

Senator SYMMS. Stan, you asked or you commented on ANZUS and the treaty. Now that New Zealand has been dropped from the ANZUS treaty, do the woolgrowers have an idea that maybe the significant amount of lamb that comes from New Zealand might be changed. As you recall, the day that the New Zealanders announced that they would no longer allow the U.S. Navy ships to make ports of call, Senator McClure and myself and several other Senators introduced legislation that would severely restrict some of our trade with them, so we could not allow this kind of behavior on their part. Most of the lamb that comes in here is New Zealand lamb; isn't that correct?

Mr. BOYD. That's correct, Mr. Chairman. I believe that with New Zealand's withdrawal from that, the way is open for Congress to address this problem. I believe always in the past, you know, there has been more or less an unwritten code that says our ships can park there, but in return their lamb can flow unabated into this country. Now with their withdrawal, I would hope that the Congress on both sides of the aisle there would take steps.

Senator SYMMS. That's what I thought last week when I saw Secretary Shultz making that statement. The first thing I thought of is how we ought to go to work on the lamb question, because we don't have the same circumstances. Of course, I have to say that from the standpoint of New Zealand, I don't know who they think is going to keep the Soviet ships out of their ports if it isn't the United States. I wonder if the Soviets would be willing to respect their nuclear ban on their ships. It's rather interesting. It's the most illogical position that a country of that size could come up with, but they've done it.

Larry, I think you have some questions on the beef thing. I would just like to let you handle those and I'll listen.

Representative CRAIG. Let me thank you all very much for your testimonies. I would like to ask some questions relating to the flow of Canadian beef or general meats into this country, with the exception of pork. In our consideration and discussions with Canada on the concept of a free trade zone, I see, by current figures coming out of ITC, that this year we have—or in 1985 we had $465 million of meat imports into this country from Canada. In 1981 we had $272 million worth of meat imports into this country. At the same time ours have actually dropped.

This year we will export into Canada about $71 million worth of U.S. meats, primarily red meat—pork, lamb, and beef. They have a favorable situation of about $394 million. In the difficulty that the livestock industry has had, how much of an impact do you think this overall figure has had on the prices that producers receive here in Idaho?

Mr. LITTLE. I think it's had a fairly dramatic one, because I know it uses a hammer, when the buyers were out talking to the feedlots for cattle that they would just buy cattle from Canada. Several of the packing plants in the Northwest slaughter a lot of cattle from Canada. They have two different forms of subsidies. And, like I say, they're by Province. And the western Province is more lucrative than the eastern Province.

And, of course, the other problem that Canada has is they have very few packing plants, as far as shipping the fat cattle down. I do think it has had a very definite effect on our markets. Some of that meat has gone back processed to Canada, and that's a number that we have a little trouble getting a handle on. Live cattle going down and the meat product going back.

Representative CRAIG. What about the dislocation pricewise? I look at entry figures. The entry figures from Eastport in Idaho; all points in Washington; Sweet Grass, MT; and the Dakotas. And I see by far the greatest flow of cattle out of British Columbia, Alberta—probably Saskatchewan, although—that was probably Sweet Grass, MT—is substantially higher in Eastport, ID, than any other——

Mr. LITTLE. Highest in the Nation.

Representative CRAIG. Highest in the Nation? Does that not have a regional impact? A localized regional impact on prices here?

Mr. LITTLE. Very definitely. Some of those cattle go to the IBP plant, Pasco—I don't know what goes to this plant in Boise, but a lot of them go to Miller Pack either from Eastport or the Montana crossing point. Regionalwise it has a very strong impact. From a national standpoint we have people back in Michigan saying you guys be careful because we're shipping our cattle north for slaughter. That's where this regionalism is coming from. It's one of the first things that needs to be corrected.

Representative CRAIG. The reason I say that, Jim, with the Commissioner in the room I'm just going to rattle some figures off that I think are critical. We're talking about meats—timeframes here. The week ending the 12th of January, 2,732 head of cattle crossing Eastport in Idaho. February—March, week ending March 9, 2,000 head. It's almost an average of 2,000 head a month flowing down out of Canada at this time.

Mr. LITTLE. Is that a month or per week?

Representative CRAIG. Excuse me. A weekly basis. So we're looking at anywhere from 8,000 head a week.

Mr. LITTLE. A month.

Representative CRAIG. A month, that's correct. Those are live cattle figures. What is the relationship, Stan, that we have with the Canadians, as far as lamb production? How does that balance out?

Mr. BOYD. Our friends north of the border, Congressman, do not really have a lamb industry, per se. They have one major packing plant. It's located in the Province of Alberta, and it is owned by the Government. They have a policy that they can come south of the border and obtain lambs when their production is at a lack. And that means they come in here, primarily in the winter—or, say, November through March—and, of course, that's when we have no lambs for sale, per se.

Because of Canada's commitment, if you will, with the commonwealth nations, we feel an amendment such as this, rather than one specifically designed and aimed at Australia or New Zealand would protect the industry more. Because if we aim it just at New Zealand, then we're afraid New Zealand will simply bring their lambs around through Canada.

Representative CRAIG. A couple of quick questions of Harold and Tim. You made reference twice to Canadian subsidies. Of course, the moment anyone mentions foreign subsidy or foreign government subsidizing their domestic industry, it triggers my mind because of what we have been able to move toward in relation to forest products and the way the laws are currently written. Where, in the feed grains and milling wheat, peas and lentils—you both made reference to subsidy—where does that usually fall with Canadians? Where are they subsidizing, in other words?

Mr. BLAIN. Well, what they do is they have a rate which is a subsidized rate for export to bring products from inland points to the terminal port. And if it's going for export, that is a much cheaper rate than for domestic.

One of the problems we had a year ago was with the granola meal, which was being shipped to Vancouver under the export rate, and then being trucked down to the United States. That just about eliminated all of our pea screening markets from our processing plants, because they were able to undercut the soybean meal and fishmeal by a tremendous amount. We were able to get the USDA to talk to the Canadian Government. And as I understand it that was taken off for 1 year for the Canadian Government to study it, but whether they will put it back into effect or not I don't know. That's not export—as I feel—material being shipped to Vancouver and then come down here.

Mr. MCGREEVY. Greytron, which is a transportation council in Portland, did a study for U.S. wheat on the transportation system and subsidy in Canada. What was found, and was actually brought up to the Trade Ambassador Yeutter and he acknowledged that there was a grain transportation subsidy in Canada.

In a recent hearing by Senator Symms in Twin Falls, I addressed this issue. And in some places in Canada the transportation subsidy is a dollar per bushel for wheat coming from the Midwest. Now that translates in Idaho to about 65 cents, because we're not in the Midwest, of course, and we're closer to the ports.

But still, a 65-cent advantage is a tremendous leverage tool and we feel that Canada has really aggressively gone after our countries that we traditionally export to. And we feel that they should definitely be included in the EEP program. If the EEC is, then Canada should be as well.

And just a point of clarification for the record, the USDA did announce that it did sell commodity credit sugar inventory to China. And they have sold it for about $15.3 million. The sugar was priced to the Chinese at 4.75 cents. That's 2 cents below the world market price. We just wondered—which we're not against. They cleared out their inventories, and we think that's fine. We wish that we would get the same treatment with the EEP program.

Representative CRAIG. One of the reasons behind the sugar deal—it was being looked at a couple weeks ago or over the last several months—there are some targeted efforts—they're not only to help the domestic industry, but the French, as you may know, Tim, have become very aggressive in this area. Importers now net exporters through optimum subsidy to the sugar producer. It was a bit of a kick in the shin to get into some of their market pocket and also to show them we're going to compete out there. The point is well made as it relates to being a participant.

Mr. MCGREEVY. We would like to kick them in the shins too, Congressman.

Representative CRAIG. Let me say, Harold, I have been giving credit to Steve all this time about his FAIR bill, because I picked it up over on the House side and Congressman Beau Boulter of Texas and I introduced it. We have been able to get it incorporated into some legislation as Steve has on the Senate side. I have been publicly giving Steve all the credit; I didn't realize you actually wrote the bill.

Senator SYMMS. He gave me the idea. About 2 or 3 years ago you found out that we financed the whole thing over there.

Representative CRAIG. But the point that you make and the point that Steve has made in that legislation is something that Congress is waking up to finally after all these years. That we have now subsidized, through whichever channels, our foreign competition. And, as I have said publicly on several occasions, we also taught them how to farm and they're doing a marvelous job of it. Now, in the last 6 months we have also given them our consumers, and that's a point of intolerance. I just say we have gone too far.

Senator SYMMS. Thank you all very much. We're running a little behind schedule, but I appreciate your testimony. We're glad to have you all here this morning. On the next panel, we're glad to have Mr. Bill Griffith from Hecla Mining Co. Bill, I hope you don't have a plane schedule that's going to conflict with your testimony?

Mr. GRIFFITH. No problem.

Senator SYMMS. Alex Jacobs of Cyprus Mining; Ron McMurray of the Port of Lewiston; Leslie Gill from Micron Technology; and Jim Stinehelfer from Hewlett-Packard. So if you would come on up to the table. We'll hear from you first, Bill. I think, Bill, I'm confident when you sit there and listen to the conversation about agriculture being financed in foreign countries that in your experiences in the mining industry you could write a book about how we have had the World Bank or some other U.S.-sponsored financial entity financing the production of copper and other products in foreign countries and about how that has definitely played a part in the problems in our mining industry. It is certainly a parallel.

STATEMENT OF WILLIAM A. GRIFFITH, HECLA MINING CO.

Mr. GRIFFITH. Thank you, Senator Symms, Congressman Craig, for this opportunity to speak to you on the impact of foreign trade on Idaho's economy.

I am William A. Griffith, chairman and chief executive officer of Hecla Mining Co. We're headquartered in Coeur d'Alene, ID. We're one of the two largest domestic producers of newly mined silver, a major producer of gold, lead, premium ball clay and scoria, with operations in eight States.

I'm also a director of the American Mining Congress and chairman of its silver committee. I have served as president of the Idaho Mining Association and as chairman of the Silver Institute, which is a national group of silver miners, refiners and fabricators. I have also served on the National Strategic Materials & Minerals Program Advisory Committee (the so-called Mott Committee). All of this exposure to these various activities has given me a reasonably broad perspective and understanding of the problems of the domestic mining industry, the impact of foreign competition on our industry and particularly of the impact on silver mining, which is a major segment of the industry in Idaho.

Metals, such as silver, are worldwide commodities traded on a worldwide basis. The price of our metal and silver is set on a daily worldwide auction. There is really nothing we can do to affect that price. Silver is silver, whether it's produced in Wallace, ID, or Cascas, Peru.

Therefore, U.S. mining companies are in direct competition on a price basis with producers everywhere else in the world. Coeur d'Alene district silver miner is in a direct one-on-one competition with the Peruvian silver miner or Mexico or Canada or wherever else silver is mined. The one who does his job most efficiently will survive. Under these circumstances I think you will see that we are used to dealing in the mining industry with international competition.

The domestic miner has not fared very well against the foreign competition in recent years.

In Idaho, for instance, the number of jobs in mining has diminished from 8,000 in 1981 to under 4,000 today.

There are several reasons for this steep decline, but a major factor has been the continued or increased production of metals by lesser developed countries (LDC's) in the face of inadequate demand, leading to prolonged depression of prices.

The U.S. mining industry is at a competitive disadvantage in these circumstances for four major reasons: One, the ore deposits in the lesser developed countries tend to be richer and easier to find. Two, their labor costs are lower. Three, the governments of our foreign competitors tend to be supportive of their mining industries, while our government tends to be adversarial. And four, foreign competitors of ours don't have to deal with the same level of cost resulting from governmental regulations, many of which we feel are unjustified and unreasonable.

So we are at a competitive disadvantage in the world today. We do need to regain our competitive edge. We in the industry are working diligently to do our part by cutting our costs and improving our productivity. I think we are making significant progress. However, we neither need nor want some of the protectionist measures that have been proposed by others.

We in Hecla Mining Co. support an open and fair international trading system, and it is my understanding that most of our peers in the industry agree with us. We believe in adhering to the principles of an open global economy, with free access to markets and resources; competitive and nondiscriminatory international trade, investment and project financing; and the strengthening of private enterprise worldwide. We don't need and we don't want government interference in free world trade, whether it be the interference of foreign governments or the interference of our government.

I am strongly opposed to protectionist measures like price supports, import quotas or tariffs, or subsidized prices for silver. Even if we were successful in divising a successful tariff system for silver, the long-term effect of such action would be to price U.S. production out of the market. Our company's been around for 94 years and we tend to look at the long term. Our customers in that circumstance in the photographic industry, the electrical industry, and the flatware industries would be put at a competitive disadvantage vis-a-vis their foreign competition, and no doubt some of them would go out of business because they would have to pay more for their domestic silver than our competitors abroad.

If our industry is to again become competitive in the world market, government price supports and protectionist measures are not the answer. However, there are ways that our government can and we think should help to provide the level playing field that's necessary for our efforts to be competitive. They aren't new and they aren't sexy. You have heard them all before, but I'm going to run down the list quickly.

One, carefully review all proposed regulatory requirements as to costs, making certain that they are justified by the cost benefit to our citizens.

Two, work honestly toward fiscal responsibility and a balanced budget. Our inability to control government spending is what has distorted our foreign exchange rates so that foreign competition has the advantage based on the relative strength of the dollar. This is particularly true in the silver business where our big competitors, for instance, are Mexico and Canada.

I recognized that Congressman Craig has been a leader in the efforts to bring about a balanced budget which would address this problem, and we appreciate that.

Three, review government-backed foreign loan programs. You have heard about that this morning. For example, just last month the World Bank announced a new series of loans that will pump $2 billion or more into Mexican industry, including mining, and silver is their biggest mining export. To stimulate growth of nonoil exports, we don't see why our government, through its affiliation with the World Bank, should promote growth in foreign metals production when oversupplies already exist and the U.S. mining industry is struggling to survive.

Four, carefully manage our environmental agencies so that funds are directed to clean up and control real hazards, rather than toward unrealistic and horribly expensive attempts to create a pristine environment that is unachievable.

Five, make any needed reductions in the amount of silver from the strategic stockpile via silver coinage so as not to upset normal market forces. Any proceeds should be used to acquire other urgently needed critical materials and not for general budget or budget balancing purposes.

More recently, and I'm proud of the Idaho delegation for this, resist efforts to dump treasury gold on the markets, in order to influence the actions of the South Africans. Our industry owes a debt of gratitude to Senator Symms, Congressman Craig, and also to Senator McClure who have worked diligently and won a number of victories in thwarting ill-conceived government efforts to dispose of stockpile silver in ways that are neither good for the country nor good for the industry.

Six, our tax policy should be broadly based and they should recognize the unique character of an extractive industry like the mining industry, mining and nonrenewable recourse.

Tax policies should encourage development in the application of new technology. Investment in new plants and facilities should be encouraged by depreciation schedules that truly reflect replacement costs. We can learn much from the Government of our competitors in Canada in this regard. And again, I commend Senator Symms, in particular, for his recent work on tax reform legislation to preserve our depletion allowance and save your ability to deduct exploration expenses, costs as expenses as they are incurred.

Seven, keep as many public lands as possible open for multiple use to improve our chances of finding ore bodies that are competitive with those of our foreign competition.

And finally, eight, promote our industry in research and development. Bureau of Mines operations should include adequate funding for the Bureau and for joint Bureau industry programs. With emphasis on the development of new processes, lower cost mining techniques and lower cost methods of meeting reasonable environmental requirements.

You will note that the above list of suggestions is limited to actions well within the realm of government's responsibilities to business and to the American public. It consists of measures designed only to provide our industry with a level playing field. None of the above would interfere with world free trade and none would cross over into the often-tried, but the never-successful arena of protectionism.

We do need government help, but not in the protectionist sense. Those measures don't work and are inevitably harmful in the long run. What we do need is government fiscal responsibility, recognition that the metals market is a world market in which we must compete and a sensible approach to regulation which gives necessary protection to our people, but does not unnecessarily penalize the mining industry in competing on the worldwide scene. Thank you very much.

Senator SYMMS. Thank you very much, Bill, for an excellent statement. I think I can speak for Larry, thank you for your generous comment. We appreciate it very much. Mr. Alex Jacobs, Cyprus Mining.

STATEMENT OF ALEX JACOBS, CYPRUS MINING

Mr. JACOBS. Good morning, gentlemen. I am Alex Jacobs, vice president and general manager of the Cyprus Thompson Creek molybdenum mine located near Challis. We employ 400 people. Thompson Creek is a primary producer of molybdenum, and moly is all we produce. Moly is used primarily as a hardening agent in steel. In general, if the steel industry is up, we are up. If they're down, so are we. Right now both they and we are way down. In addition, the world, at present, has excess moly and moly capacity.

About one-half of the world's production comes from mines which produce copper and obtain moly as a byproduct. In this country we are one of two primary producers. Amax is the other. In the world, we are one of three major producers. The third major producer is Codelco in Chile.

About one-half of our production is sold overseas. Mainly in Europe and Japan. The rest is sold domestically. Our principal foreign competitor, Chile, also sells moly in the United States. The production from Chile that's imported into this country has been subject to a tariff which is imposed when those imports under the guidelines of the General System of Preferences exceed 50 percent of total molybdenum imported into the United States.

Last spring this tariff was waived, showing disregard for domestic producers. The administration, in the name of free trade and foreign relations, allows imports of products—moly oxide—which will devastate an already ailing portion of the mining industry. These products are being overproduced by foreign state-owned and subsidized mines in an attempt to maintain employment and foreign exchange.

While we do not like trade restrictions, in the real world there is a multiplicity of trade restrictions and import duties on products from this country. We would like to know that the administration will at least enforce current laws affecting the importation of nonferrous metals. In the case of Cyprus Thompson Creek this specifically means importation of moly oxide.

The mining industry in this country has shrunk dramatically since 1980 and the employment of metal miners has declined by 40 percent. We have repeatedly seen actions, such as the granting of the tariff waiver on Chilean moly, that in combination have had extremely harmful effects on one of this nation's basic industries, an industry essential to our future.

Because Cyprus is concerned about the future of mining, Cyprus' president and chief executive officer, Kenneth J. Barr, has spent 2 weeks, one early last spring and one last month, on Capitol Hill talking to Senators and Representatives about those issues that might further harm the industry.

In particular, Cyprus is concerned about pending tax legislation. The House and Senate, at the strong urging of the administration, have each offered versions of tax reform. The tax conference to resolve the differences and negotiate a final product is in progress. I believe it was finished last Saturday. Both bills substantially raise the mining industry's taxes. The House bill, if unaltered, will have a devastating impact on the mining industry. The Senate bill is more favorable, particularly in the areas of depletion and depreciation.

We, as a member of the mining industry, are still quite concerned about the impacts of the minimum tax provision, but we want to thank you, Senator Symms, for your leadership in the Senate Finance Committee and, in particular, for the amendment you sponsored which removed exploration and development as a preference item from the minium tax proposal. Your efforts on behalf of the mining industry are deeply appreciated.

In conclusion, we are concerned about the impacts of foreign competition and especially such action as the waiving of the tariff on moly oxide by our government. And we are concerned about the possible impact of pending tax legislation on our struggling industry.

Thank you for asking Cyprus to participate in this hearing.

Senator SYMMS. Alex, thank you very much. I don't know how the conference came out. You're correct that I left Washington at 6:45 Saturday morning and the Sunday morning news reported that the conference had concluded its activities. One of the messages I have here is an urgent call to call Senator Danforth—very urgent. He's one of the two Senators that voted against the conference. The other one is Senator Wallop from Wyoming who has the same interest I have in the mining provisions. So I'm concerned about how that came out. I don't honestly know what's in the bill at the present time, but I think it will require that we all take a careful look at it before we get committed to either support it or oppose it.

The part that frustrates me about the entire process is that the tax bill is a $4 trillion bill, in terms of government revenues coming in. And all of you that are in business, and the other business people who testified this morning, if you could estimate within 10 percent of how much revenue your respective companies will have over the next 5 years, I think your accounting department would be doing very well from the standpoint of the board of directors. Yet, the Government sits back there, the Treasury Department and the tax-writing committees trying to impose a set of rules on the tax-writing committees to derive an estimate—to predict an estimated $4 trillion coming into the Federal Treasury to make the bill revenue neutral.

And they start nit-picking on these small items, in terms of dollars, as to what should or should not come in and what preferences should be kept or thrown out of the code. We're talking about $200 or $300 million dollars in one or two of these cases. And yet they try to take those out in order to keep the bill revenue neutral. It's just not realistic. There is no way those accountants and number crunchers that work for the Joint Tax Committee have any idea how much money will come in for the whole 5-year period. Within plus or minus 10 percent, that's $40 million. We still try to do the impossible, I think. It makes it very hard on industries like yours.

The next witness is Ron McMurray from the Port of Lewiston.

STATEMENT OF RON McMURRAY, THE PORT OF LEWISTON

Mr. McMURRAY. Thank you, Mr. Chairman. My name is Ron McMurray, I am vice president of the Port of Lewiston. I appreciate your having given me this opportunity to make a statement to this committee. My statement will be brief.

The Port of Lewiston has been shipping wheat since 1975 when slack water came to Lewiston via the Columbia-Snake River system. In that first year we shipped through the port 147,527 tons of wheat. By 1980, wheat shipments had climbed to 1,108,487 tons, or 3,580,000 bushels. At $5 per bushel, these shipments had a total value of nearly $183 million. Not all of this grain was grown by Idaho farmers. Some 633,000 tons of 57 percent came from Montana and other States east of Idaho. But 100 percent of these shipments were destined for overseas markets.

In 1985, these offshore markets had so declined that only 605,669 tons of wheat moved through the port of 19,987,000 bushels. Montana and other States contributed 48 percent of 294,000 tons.

Because of loss of markets and the sharp decline in the price, value of wheat shipped declined to approximately $55 million in 1985. The drop of $128 million represents a catastrophic loss to wheat producers. I should add that 1986 appears now to be a continuation of 1985 levels. No doubt there are many reasons for the sharp reduction in overseas sales of wheat, but there can be no doubt that stopping shipments for political reasons has reduced the image of the United States as a reliable source of food.

A recent study by Dr. Larry Merk at the University of Idaho gives some insight as to the devastating effect on employment of reduction in shipments. His study indicates that for every employed person in the port, 2.2 other persons are also employed in our county. When one also considers the drastic reduction in income to the growers, it becomes apparent that loss of these overseas markets has done major damage to the economoy of our region. The farmers receive the first and worst impact, but the entire economy suffers.

When one turns to shipments other than wheat, a somewhat brighter picture emerges. In 1980 some 5,000 containers move through the port. In 1985 this volume had increased to nearly 6,200 or an increase of 24 percent. Paper is the major commodity moved in containers. Dry peas and lentils constitute substantial volumes as well. I am not in a position to estimate what proportion of total production the overseas movement of paper represents. Perhaps Potlatch Corp.'s representatives could shed some light on that. However, paper production does contribute major sums to the total economy of the area.

Production of dry peas and lentils presents an alternative to wheat production from many farmers. This is most helpful to the economy of the region.

In closing, I wish to emphasize that water transportation made available at the Port of Lewiston does facilitate movement of commodities from this inland area into overseas markets. Sales in those offshore markets contributes substantially to the economy of the region.

Senator SYMMS. Thanks very much, Ron. These are some very interesting statistics.

Mr. MCMURRAY. Thank you.

Senator SYMMS. Jim Stinehelfer from Hewlett-Packard, which is a major producer and employer here in Boise Valley as well as in Coeur d'Alene. We're delighted to have you here this morning.

STATEMENT OF JIM STINEHELFER, HEWLETT-PACKARD CO.

Mr. STINEHELFER. Good morning. It's a pleasure to be here this morning and have the opportunity to address you. I'm Jim Stinehelfer. I am the manufacturing manager for Hewlett-Packard Co.'s Dick Memory Division located here in Boise, Idaho.

The abilities to trade and invest worldwide has helped Hewlett-Packard to grow into a $6.5 billion company since its inception in 1939. H-P is the 12th largest exporter. In 1985, although two-thirds of our 84,00 employees were located in the United States, nearly half of our company's business was generated abroad. Europe accounts for more than 60 percent of H-P's international revenue while Japan is the company's largest single foreign market. Other important markets are Canada, Australia, and the countries of Southeast Asia and Latin America.

New products are the lifeblood of the U.S. high-technology companies like Hewlett-Packard. Generally, more than half of H-P's annual orders are for products that did not even exist 3 years earlier. To sustain this new product pace, H-P spends millions of dollars on research and development each year. In 1985, we spent $685 million including $32 million at our two divisions right here in Boise. The funds needed to conduct these extensive R&D activities are supplied by earnings generated both in the United States and abroad.

Manufacturing, like research and development, is an international activity. Although at H-P we produce most of our products in 24 manufacturing sites in the United States, we also have manufacturing activities in 13 countries, including joint ventures in Japan, Mexico, Korea, and China. These factories utilize high quality cost competitive parts and components provided through the efforts of the company's U.S. purchasing activities in seven international procurement centers. By purchasing prudently and manufacturing rationally in the United States and abroad, H-P and other U.S. high-technology companies with similar strategies benefit local economies while at the same time reducing costs and maintaining competitiveness.

Access to worldwide markets helps to sustain R&D, increases productivity and contributes substantially to lower prices. Since 1970, the overall U.S. trade balance has deteriorated and, as you know, many of America's most competitive industries have suffered. This has led to increased calls for protection against imports.

We at Hewlett-Packard are convinced that expanding international trade and having access to the largest possible world market is critical to sustained technological advancement. We are concerned that many of the proposals being advocated may not be in the long-term national interest, and would be especially damaging to U.S. high-technology companies.

U.S. legislation designed solely to restrict or unduly burden imports, is likely to lead to foreign retaliation and reduced access abroad for competitive U.S. high-technology firms. It would also reduce the need of U.S. firms to compete and thus, rather than leadership, our industries would be committed to a position of inferiority.

Currently, Hewlett-Packard and a number of other lending high-technology electronics companies are particularly concerned about the issue of whether or how to strengthen U.S. dumping laws.

The notion of making a dumping law a more effective deterrent has become politically popular in recent months. Attention has focused on creating a private remedy for injury resulting from dumping, and establishing a civil penalty for multiple offenders.

We believe application of any of the well-intentioned proposals currently before the Congress could backfire against U.S. companies such as Hewlett-Packard that are leading exporters. For example, innocent U.S. purchasers of foreign products might be subjected to legal harassment and even have damage awards enforced against them.

In addition, we think our trading partners could retaliate and close off markets which are not open to our most competitive industries.

We believe the Congress should ensure that any new legislation is a step forward and not one that would handicap U.S. companies. In our view, any legislation must protect innocent U.S. purchasers of foreign products from legal harassment and any liability for civil damages. It must also recognize our country's international obligations and its commitment to GATT and, last, it must truly act as a deterrent to dumping and not serve as veiled protectionism.

While protectionism is counterproductive, a traditional pure free trade approach no longer seems adequate. First, there probably have always been impurities in free trade. Even the United States, the foremost proponent of free trade, has protected a variety of industries from steel and autos to wine and beef.

For internal political reasons, few countries are able voluntarily to open their own markets. As more economies develop in environments of planned competition, they are able to restrain access to their markets in a wide variety of subtle ways. Negotiations—bilateral and multinational—appear to be the soundest approach to overcoming these problems and pushing toward the elusive goal of free trade.

My remarks today reflect, in a nutshell, the major concerns of my company, Hewlett-Packard, with regard to the U.S. trade policy. Although there is really no "typical" high-technology company, we believe that there are many high-tech firms, particularly in electronics, which face similar challenges. Those companies share H-P's need to sustain and enhance the major investments we have all made in research and development, in talented people and in efficient state-of-the-art manufacturing facilities. This, we believe, can be accomplished by marketing our innovations worldwide.

Senator SYMMS. Thank you very much, Jim. Next let's hear from Leslie Gill, vice president of finance, Micron Technology, Inc., Boise. Leslie, thank you for being so patient.

STATEMENT OF LESLIE A. GILL, MICRON TECHNOLOGY, INC.

Ms. GILL. Thank you, Senator Symms. As the Senator said, my name is Leslie Gill. I'm vice president for finance and treasurer of Micron Technology, Inc.

Micron was founded here in Boise. Shipped its first part in 1981. We currently employ 1,100 people locally. At our facilities here we manufacture dynamic random access memory components, or DRAM's, the most widely used semiconductor components in computer systems. Like many other Idaho industries, we compete on a worldwide commodity basis, and all our competitors are large multinational corporations.

Perhaps the most important thing I can tell you today is that we're still here, despite severe price cutting and overproduction of DRAM's by our foreign competitors in the last 18 months. To give you an example, we started 1985 with over eight domestic DRAM manufacture competitors. We now have only one. Virtually every U.S. producer, including Micron, has gone through a series of layoffs and cutbacks, culminating in most companies' cases with an exit from industry.

Illegal and unfair practices by foreign competitors have caused huge financial losses to U.S. manufacturers in this industry. For Micron these losses have meant that fewer employees have been retained or hired to the extent that possible equipment purchases and upgrades have been deferred. Perhaps most importantly we have had to focus only on those research and development projects that could give us immediate results and we have had to defer or cancel entirely R&D projects with longer term potential and reward.

Recently, the Reagan administration has reached an agreement with Japan on the semiconductor trade issue. Negotiating that agreement was a monumental task, and I would be remiss if I didn't take this opportunity to thank some of the officials who worked so hard in achieving that task, including members of the Office of the U.S. Trade Representative, officials of the Commerce Department, and our own Idaho delegation who worked so hard in our behalf.

Some analysts are already decrying the semiconductor agreement as protectionist. This is a sad mischaracterization. It is simply an attempt to eliminate unfair trading practices from our industry in our own market, and a first step in opening the very important Japanese market to U.S. manufacturers. There is no protection for U.S. manufacturers in this agreement and there are no barriers to hide behind. We at Micron view the agreement not as an end in our struggle, but as a beginning in the fight to retain the vital U.S. semiconductor industry here in the States. Although the agreement may be a start in this task, there are several other areas which we must address. I would like to take a look at some of those now.

First, we must promote higher education in the basic sciences, engineering, and production skills. Our industry is based on a large supply of skilled highly technical employees and a scary statistic is that the Japanese are currently graduating from college twice as many degreed engineers annually as the United States. If we don't reverse that trend quickly, we will lose that race because of lack of qualified employees.

Second, we must stimulate research and development in basic science and production technologies. Our business is extremely technology intensive and we have to remember that we compete with countries where those activities are organized and, in fact, subsidized by their government. Now, we're not promoting government management of research and development, but we're asking for government stimulation of the research and development opportunities in this country.

Third, the United States needs a comprehensive trade policy. Now, good action is being taken in broad ranges of the Government in various trade areas by several governmental agencies, but the effect is still rather disjointed and sometimes conflicting with no comprehensive policy or guidelines. Let me give you a good example. During the hearings on Micron's antidumping position before the ITC, the International Trade Commission, another government agency, the Federal Trade Commission, not only asked to be involved in the proceedings, but argued strenuously in favor of our Japanese competitors at that hearing. It upset us a little bit that our taxpayers' dollars paid not only for the ITC proceedings but for the FTC hearings against that.

It appears to be time to consider a cabinet-level agency which would be responsible for establishment and implementation of a unified comprehensive trade program. As part of any comprehensive trade program, we need to streamline our own export regulations to make it easier, in fact, for U.S. manufacturers to compete overseas. Let me give you an example. Every new export company customer that we get requires us to get an export license specifically for that customer. An instrument which takes us 6 to 8 weeks, best case, to get. The process is so bureaucratic it's easy to understand why foreign customers sometimes give up on U.S. vendors entirely because they can't wait the months that it takes to get shipments approved.

Finally, we can't allow foreign governments and foreign manufacturers to use our own free trade rhetoric as a smokescreen to exploit our market. Some of our foreign competitors enjoy government-subsidized research and development programs, loans, tax incentives, and home markets that are closed to imports by not only tariffs, but sometimes unfair standards and testing requirements. We must somehow make it known to these governments and foreign manufacturers that free and fair trade is a two-way street, and those who engage in adversarial or unfair trade practices will be dealt with severely.

I would like to thank you for giving me the opportunity to speak before you today. I would also like to thank that dedicated group of employees at Micron, who despite wage cuts, long hours and layoffs, is the real reason that Micron has survived and I have the opportunity to speak before you. Thank you.

Senator SYMMS. Thank you very much, all of you, for your statements. I guess the first question I would like to ask Leslie, you pretty well answered it in your testimony that you are happy with the trade agreement on DRAM's that was just worked out by the administration with the Japanese. I took it from your statement you're happy with it.

Ms. GILL. We're happy with it at this point.

Senator SYMMS. It needs to be carefully monitored, I think you said?

Ms. GILL. Right.

Senator SYMMS. Jim, how does your company feel about the agreement?

Mr. LITTLE. I think our basic impression is it will lead us to certainly face higher prices. I was reviewing prices for DRAM's just last week and we're going to see price increases by a factor of two to four in many cases. As long as the whole world economy sees those same prices and I can compete fairly on a worldwide basis with those higher priced levels, I think it's probably a good bill. If, in fact, some of my major competitors who are located outside of the United States now have access to lower cost components than I did, I'm going to find it more difficult to compete. It's a two-edged sword.

Senator SYMMS. So, a third country part of this may end up being the critical part as if, in other words, chips are dumped somewhere else and go into products that you compete head-to-head with—that's your concern? Is that the same concern you're speaking of, Leslie?

Ms. GILL. Yes. We think the third market is a very important part of that agreement.

Senator SYMMS. Larry, at this point, do you have any questions about this?

Representative CRAIG. Jim, I would like to ask about the size and the scope of Hewlett-Packard and your international involvement. How many of the countries that you're involved in did you have to place a plant in that country simply because of requirements of their government?

Mr. LITTLE. There are several reasons why H-P will look at individual countries as opportunities. One, to gain a marketing position of strength, to expand our markets of opportunity. Another is to comply with government regulations or the political structure.

Of the countries I'm aware of, I would say 50 to 60 percent were to comply with government restrictions or political situations, balance of trade types of issues and supporting of development of technologies and infinite industries in our own structure.

Representative CRAIG. In other words—the reason I ask is that although we talk of free and open access, oftentimes we cause large multinational corporations like yours to leap over the access problem because it was not really free access. You simply became a part of it.

Mr. LITTLE. That's correct.

Representative CRAIG. Bill, this is one of the concerns that Steve and I have had—and we're working in a variety of areas. His FAIR bill speaks of it and you added an amendment in the Senate as it related to international loaning agencies and the utilization of their money. One of the ratcheting problems we have, you as an industry in this country and in this State, is sensitive to market price for your commodity—silver in this instance—when it gets below a certain level, you simply have to quit producing because you can't afford to produce it. You're subsidizing it from other segments of your company, if that's the kind of company you are, to keep it alive.

In nations like Mexico and Peru and Third World developing nations that we see with these international loans oftentimes they're much more concerned about cash-flow for the loan repayment than they are about the profitability of an industry. In this case mining, if there is some Federal relationship to the mining industry itself. So they are driven by the nature of the loans themselves to simply keep producing at higher levels which drives the world price down, in the case of silver, because you're absolutely correct, it's a world commodity. It even drives the price way below where your break even was. That's a concern of mine. You've expressed that here to some extent. And don't you believe, when you say government ought not do certain things and not do other things, that this is one area that we can become more directly involved in as a nation.

Mr. GRIFFITH. I see no reason, in view of the fact that mining abroad is as successful as it is, that they shouldn't be forced to go to the same sources for financing that we go to. And that is not the Government. That is not a governmental agency. We go to banks or shareholders or folks of that kind. And I don't see any reason why the Mexicans and the Peruvians and the Zambians and all the rest of them shouldn't get their money at this point in time from the same source. And if they pay the same interest we pay, we will take them on.

Senator SYMMS. I'm convinced that Congress is now in a mood to vote—the Congress is always behind the problem. That's the frustrating part about being a part of it. The problem is that we get out here and the patient's almost dead before the hospital room even gets fixed is the way that I like to put it.

When we had an export-import bill on the floor of the Senate, we had several tests of this. Not only the FAIR bill, but we expanded it because when we got the FAIR bill started the fellow that helps me with some economic advice pointed out to me that money is just as tangible as silver is. And if you don't lend money to, say, Brazil for agriculture, they will use their own money for agriculture and they will take the money they get from the World Bank for something else. They are manipulating. We need to make it a hard and fast rule with all of our participations. I have not been a supporter of our contributions to the World Bank and other banks at all, but I'm convinced from looking at this that Congress is now ready to crack the whip on this, so to speak, and force Brazil to borrow money at more realistic interest rates because it is a form of interference in trade that has worked definitely to the disadvantage of our producers.

We had a couple of votes on this on the Senate floor and were successful. And finally the committee wouldn't even challenge us. They would accept the amendments. Whether those will become law this time around you can't say for sure, but I think that there is a growing consensus across the country of what you're saying here. They want to try to get the playing field level within practical bounds—without getting in a massive Smoot-Hawley type of a trade war. I do think this President, once he gets his entire focus on this issue, has the ability to make some things happen pretty fast. We have received a good response from him recently on a broad range of things. I think we're going to get a good response on a large number of these things we discussed today. Unless there are any more questions or any more witnesses, I want to thank all of you and Congressman Craig for his part in this, the committee staff and our reporter and all the people that made this a successful hearing.

We have a hearing like this and hear all this good information. The question now is to see if we can use it. I'm reminded of my dad one time when we were at the ranch and it was snowing and the weather was cold and we couldn't be out in the orchard working, it was the middle of January. The county agent was putting on a meeting on how to control weeds in the orchard. And I got ready to go in to the meeting and I said to my dad, "Don't you want to go in to this weed meeting this afternoon and learn how we can use these herbicides?" He said, "No." I said, "Why not?" He said, "Well, I already know how to farm better than I'm doing it, and that just makes me feel worse."

I have always laughed about that because sometimes we get all this good testimony and you do a lot of work to put it together and then the question is how do we get it put into practical use? But we will do our best to see that we can back up our positions with the work that you put into this hearing. Thank you all very much. The meeting is adjourned.

[Whereupon, at 12:35 p.m., the subcommittee adjourned, subject to the call of the Chair.]

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